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THE ART AND SCIENCE OF ENGAGING REWARDS

The definitive, research-based guide to the most effective use of non-cash rewards in incentive, recognition, loyalty or other engagement programs.

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Introduction

While almost every other form of business has changed in the last 30 years, it's safe to say that the fundamental design of rewards and recognition remains much as it was at many organizations. While an infinite variety of award types and web platforms and apps are now available, the actual way most programs are designed has changed little over the years. Despite over a decade of extensive research on the proper use of rewards and recognition to engage customers, distribution partners, employees, vendors, communities, etc., most organizations continue to run programs based on a carrot-and-stick or "do this, get that" approach, without addressing all of the other factors that engage people to perform.

Over the past decade, organizations have gained an increasing respect for the importance of engaging people across their organizations to achieve performance goals and are struggling with how to do it in a better way. At the same time, extensive research funded by the Incentive Research Foundation and Incentive Federation conducted by numerous independent academic groups, as well as considerable other research on engagement conducted by other organizations, now provides a compelling library of findings that in many cases have not yet found their way into the marketplace.

Organizations large and small continue to spend considerable sums on such traditional tactics as rewards and recognition, learning, communication, coaching, collaboration and innovation, etc. without applying findings that indicate that the vast majority of programs are not designed to optimize long-term results. The opportunity exists to use the findings of the research on the role of engagement and the various tactics of engagement such as rewards and recognition to design programs that provide better, more consistent results with a measurable return on investment.

The Art & Science of Engaging Rewards is designed for professionals in marketing, human resources, corporate communications, or in fundraising who seek an authoritative reference for the information they need to design the best possible incentive, rewards, recognition, or related engagement programs. This e-book, based on a compendium of over a decade of research from multiple sources, is designed to provide the most up-to-date reference for serious practitioners seeking to design the best programs for their organizations or clients, based on the latest research.

Chapter 1: Emergence of Engagement and Impact on Rewards

Disengaged employees, customers, and distribution partners constitute one of the most difficult and enduring business problems across the United States and around the world. The good news is that engagement can be improved. There are many organizations, in the private sector and in government, that have done it. How they succeeded is no secret; it is explained thoroughly in this e-book. The emergence of engagement not only affects how organizations manage their people, but has a significant impact on how they use incentives, rewards, and recognition.

Twenty years ago, we didn't talk much about engagement. Workers were expected to be productive, sitting at their desks or standing on an assembly line for 8 or more hours a day doing the same things over and over again. The goal of management was to make workers do what they were told. Period. Organizations worked to "satisfy" customers, but even 20 or 30 years ago, there was no notion of an "engaged customer," let alone an engaged supplier. This approach affected the way organizations rewarded and recognized people. They tended to focus on offering incentives in either cash or non-cash form to entice people to do something, without looking at all of the other ways people are engaged, and in what.

Today, more and more organizations are waking up to the fact that a culture of engagement – where standards are adhered to across the enterprise, and all of the organization's key constituents have a similar understanding of the organization's brand proposition – is a significant competitive advantage and a key differentiator.

The old style, dominant attitude toward customers, employees and other stakeholders, and the command-and-control style of management, used to work. It worked because people were doing repetitive, mindless work and customers had less choice and lower expectations. But think about all that's happened in the past century. We've gone from an Industrial Age to an Information Age to a Creative Age. All in less than 100 years.

Similarly, 30 years ago the big brands controlled the scene. They could often dictate to retailers what to display, when, and at what price. Then the power shifted to the big retailers, who could similarly dictate to manufacturers. And today, with social media, the power has shifted to the consumer, who with the power of a "like" button can have a serial impact on a brand's equity.

In December of 2015, employees at SpaceX put a rocket into space and landed the launch module safely – on a dime (see video clip below). No one had ever done that before; it's remarkable and inspiring. It also required what we refer to in this book as "enterprise engagement." SpaceX is a modern, unique company in the way that it rewards and inspires its employees and the way that it "co-creates" value with its customers, suppliers and partners.

SpaceX could not have achieved what it did without assistance from NASA, for example. Handled improperly though, NASA could have very easily become a rival. Today SpaceX supplies NASA and vice versa. SpaceX also engaged suppliers, launched and participated in research & development contests, built excellent relationships within its physical community, and leveraged the contributions of many volunteers. In short, SpaceX is a thoroughly modern company, and one that practices engagement across the enterprise.

Video Clip: SpaceX Successful Rocket Launch & Landing

https://www.youtube.com/watch?v=k96rzza4xL8

Think about how work has also changed in your industry or profession. No doubt it doesn't much resemble the way things were done even 20 years ago. In any conversation about what drives engagement and causes disengagement, we have to start by acknowledging three things:

1. Our work has changed radically and completely over the past 20 years: It has gone from physical to cerebral.
2. Our work has changed from routine and repetitive to complex and creative.
3. Our customers have grown more knowledgeable and more demanding.

And for many organizations, relationships with investors and the community, as well as with channel partners and suppliers, have also grown more complex.

All of this change has a significant impact on the design of incentive, reward, and recognition programs that many organizations have failed to recognize.

Think about this: Both employee and customer engagement is low across the county. According to Gallup, it hasn't changed much in at least 10 years – despite the billions spent by American organizations to improve it. Why? Companies spend tens of billions of dollars on incentive programs, training, and communications, and yet there is little sign of overall results, at least on a macro-level.

The reason is because most organizations don't focus on engagement as a strategic competitive tool, but rather on the processes needed to maximize efficiency – i.e., doing things better, cheaper, faster. Engagement turns the old process-focused management style on its head by focusing the organization on common values and goals, and fostering alignment and connections across the organization between customers, distribution partners, employees, vendors, and communities. The premise is simple: If everyone understands the mission and value proposition and is proactively involved in its success, the organization will do better.

To understand this new approach at a macro-level, a good place to start is to look at the organizations that are succeeding in this creative age. Tesla, which also owns SpaceX, sells very few cars. But it's already worth almost as much as Ford or GM. Amazon, Google, Facebook and Apple are just four of thousands of Internet and I.T. firms. They're relatively new, yet they're already worth as much or more than the entire U.S. manufacturing output combined.[1]

Facebook alone – which was founded by a college student less than 12 years ago – is worth more than Ford, GM and Boeing put together.[2] GM, Ford and Boeing employ more than half a million people. Facebook has 12,000.[3] How is it possible that Facebook is so much more valuable? Granted, Facebook may not be with us in 2030, but right now its 12,000 employees are bursting with imagination, ideas, and creativity. Its customers contribute more than 99% of its content and its partners are thrilled to be associated with it. Employees, for the most part, love their jobs and bring every bit of themselves to the work and mission.

[1] See Yahoo.Finance.com (combine Amazon, Google, Facebook and Apple market values) and data.worldbank.org
[2] Ibid (search facebook, GM, Ford and Boeing)
[3] See: www.statista.com (search Facebook, GM, Ford and Boeing)

This is largely because Facebook has thrown away the command-and-control techniques of management invented for the Industrial Age. In fact, it never even considered those techniques. Facebook and many other 21st Century startups were never saddled with old style industrial age management, leadership and "customer service." That's an enormous advantage in motivating and engaging creative workers, and it's a factor that leads directly to more innovation from all constituents.

Most of Facebook's and Google's employees can walk out the door into high paying, exciting jobs, anywhere they want. Yet relatively few of them do so. Their customers also have alternatives, but their market share continues to grow. Why?

Because these valuable companies – the winners in our creative economy – are also great places to work and great companies to work with…places that encourage people's ideas, creativity, and innovation.

Command-and-control and the carrots and sticks that go with it are the easy buttons of leadership. *But they no longer work. We aren't on assembly lines any more and few of us are in foxholes surrounded by the enemy.*

Building a highly engaged workforce and constituency is exceptionally hard to do. Leaders are busy. Many prefer to stay safely in their offices with the door shut. But think about the example of SpaceX. Engaged organizations do things like invent rockets that can go into space, return safely, and land on a precise target.

Without <u>question</u> – and with rare exception – engaged organizations <u>massively</u> outperform organizations that aren't good places to work or do business with. Today, no serious researcher or leader disputes the evidence that a better engaged workforce and better engaged customers leads to a more productive, more profitable organization with better outcomes across the board.

The evidence says the same thing: Organizations that are among the best at engaging their employees are about three times more productive than the average organization – that's 300% more productive![4] Organizations that engage their employees and their customers see exponential revenue and profit gains of more than 270%.[5]

And this also spills over into our personal lives. Engaged employees are happier, healthier, better to their customers, spouses, children, and friends. Engaged suppliers somehow find us better deals, engaged customers refer new business to us and forgive us our minor transgressions and mistakes. That's why it may seem like every

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[4] Allan Schweyer, The Economics of Engagement, Enterprise Engagement Alliance, 2012
[5] John H. Fleming and Jim Apslund, Human Sigma, Gallup Press, 2007

leader and business guru is talking about engagement today. That's why so many people are calling for changes in management and leadership styles and new efforts at building engaged cultures.

That's why the design and use of incentives, rewards, and recognition has to change as well. *You can't send rockets into space and land them by telling people what to do. You can't motivate knowledge and creative workers by dangling sweeter carrots and wielding sharper sticks. You can't only be first in your industry (or really even expect to survive) by taking a 19th or 20thst Century approach to motivating your workforce or satisfying customers. Customers do not become brand ambassadors simply by signing up for a loyalty program.*

This e-book examines the critical role played by Incentives, Rewards, and Recognition (IRR) in the process of engagement, and how to maximize the impact of these programs through more scientific program design. Almost all of what causes employees, customers and other important stakeholders to engage can be captured through better design of IRR programs.

Chapter 2:
Incentives, Rewards, and Recognition

Definitions

Incentives stand apart somewhat from rewards and recognition. Miriam-Webster defines "incentive" as "something that incites or has a tendency to incite to determination or action," and "something that encourages a person to do something or to work harder." Incentives are neither rewards nor recognition. They come *before* a person or team is recognized. Incentives are as complex and risky as they are ubiquitous. They will be discussed in depth throughout this e-book.

The terms "reward" and "recognition," on the other hand, are at once very different and at the same time nearly identical. In that recognition is a form of reward, any definition of recognition must fall under the definition of reward. However, all but the most mishandled of reward programs bring an element of recognition. Accordingly, any definition of reward must fall under the definition of recognition.

All philosophy aside, definitions of "Reward" and "Recognition" usually contain the elements in Table One below.

Table One: Definitions of "Reward" and "Recognition"

Reward	Recognition
"a thing given in recognition of one's service, effort, or achievement." - Google "to give money or another kind of payment to (someone or something) for something good that has been done" – Meriam Webster "something given or received in return or recompense for service, merit, hardship, etc."– Dictionary.com "something given in exchange for a useful idea, good behavior, excellent work, etc." – Cambridge Dictionary Online	"the action or process of recognizing or being recognized, in particular." – Google "acknowledgment of something's existence, validity, or legality." – Google "the acknowledgment of achievement, service, merit, etc." – Dictionary.com "formal acknowledgment conveying approval or sanction." – Dictionary.com "special notice or attention." – Meriam Webster

Distinctions Between Incentives, Rewards, Recognition, and Compensation

As described above, incentives are clearly separate and easily distinguished. The distinction between rewards, recognition, and compensation, however, is another matter. In the field of Incentives, Rewards and Recognition (IRR), as well as in the engagement and HR vernacular, people tend to talk about rewards when they mean something tangible outside of normal pay and benefits – for example, a bonus, trophy, gold watch, or exotic trip.

The term "recognition," on the other hand, is mostly used to describe acknowledgement that is intangible, a sincere thank-you, for example, or formal recognition in a letter, being singled out by the boss for a job well done, etc.

Compensation normally refers to a person's pay and tangible benefits, such as health insurance, paid leave, matching 401k contributions and potential bonuses.

Increasingly, engagement professionals use the terms "reward" and "recognition," interchangeably. A customer is rewarded with points that can be used to purchase goods; an employee is recognized with a certificate, points redeemable for awards, or a job promotion, inclusion in the annual high-performer offsite meeting, or a choice assignment. A person active on a social media site is rewarded & recognized with status, for example.

What is important is understanding the difference between extrinsic and intrinsic rewards. Extrinsic refers to material-based motivation; intrinsic to the spiritual. The best IRR programs appeal to both, as research consistently suggests that both have appeal to most people.

Today, the term "total rewards" is often used to convey the entire value proposition an employer might offer to "talent" it wishes to attract or retain. The concept of total rewards includes salary and bonus, time off, health and other benefits, but organizations sometimes extend it to promote cultural advantages they believe are compelling – a culture of recognition, an emphasis on employee learning and development, an inclusive management philosophy, a commitment to work/life balance, a compelling reward and recognition program, etc.

Just as organizations are well versed in distinguishing their value proposition to customers, HR, IRR and engagement professionals are beginning to use the same tools to attract talent.

The Research Basis for Use of Non-Cash Rewards Versus Cash

"In every single study and every single focus group that anyone's ever held to get a bunch of people together and ask them what they want [for an incentive award] 80 percent said cash. But at the end of the day, that has nothing to do with trophy value, it has nothing to do with shared memory, it has nothing to do with engagement. Why are you asking people what they want when you know what their answer is? Why don't you design something that achieves the objectives you're starting out with for the program? Cash is not a motivator. It's a compensator." – Incentive Marketing Association[6]

The discussion of what type of reward, recognition, or compensation is most motivating is one that may never end. In truth, there is no all-encompassing approach to employee, customer, or stakeholder engagement that works for every person in all circumstances.

Nevertheless, a preponderance of evidence suggests that where the broad categories of rewards – cash vs. non-cash – are concerned, there are reliable principles and best practices at play. Despite the IMA's assertions in the quote above, cash can motivate under the right circumstances. Where work is repetitive, physical, routine, and transactional (or one's relationship with customers is purely transactional), cash incentives to work harder or buy more can work. One only has to consider piece-work and cash-back credit cards to agree. And dozens, if not hundreds, of experiments confirm this.

Figure One: Cash Works! (Sometimes)

[6] Leo Jakobson, The Continuing Case for Non-Cash Rewards, Incentivemag.com, April 4, 2012

The image above represents just one such experiment. It is just a series of letters – U and N typed repeatedly. Two groups of MIT students were asked to type the two letters in sequence…as many as they could in a few minutes. One group was offered up to $300 based on their performance. The other group's rewards topped out at $30. Which team do you think did better – the high-reward group or the low-reward group?

Right, the highly rewarded team did much better – 95% better. This may come as no surprise, but it is a useful illustration of how and when cash can be helpful in motivating people to higher performance – i.e., as a form of compensation based on results.

Some Incentives Distract

Cash and other tangible rewards work in some circumstances but represent a double-edged sword, and a particularly dangerous one in the hands of the wrong person. To illustrate, the same incentives as in the simple task above were used in a second task (Figure Two). In this case, the participants in the experiment – the same MIT students who typed the letters – were asked to find the two numbers in the grid that add to ten.

Figure Two: The Distraction Effect

9.38	6.74	8.17
5.15	6.61	3.06
9.71	.91	4.88
3.58	4.87	6.42

Go ahead and try it if you haven't already.

It took you a minute or two didn't it? You had to concentrate and focus, even think, just a little bit, But it's a simple exercise; elementary school math. No doubt you got it. Which group do you think did better on this exercise – the high-reward group or the low-reward group?

This time the highly rewarded group performed worse – 34% worse. Why? Poorly considered rewards distract people from their work. Rewards often take people's minds off the work and on to the reward. And that's fine if you can do the work automatically, like typing two letters over and over repeatedly. But straight up, these kinds of "if/then" incentives rarely work when the task requires any sort of thought. Countless hundreds of experiments by dozens of researchers demonstrate this phenomenon. It even has a name: The Distraction Effect.[7]

So what about non-cash rewards? In truth, the same things would have happened in these experiments had $300 gift cards, $300 dining vouchers, or $300 plane tickets been offered. The reward would have distracted because it was applied without much thought.

Cash vs. Non-Cash

Now, back to the quote from the IMA. It is correct in pointing out that surveys consistently show that most employees' stated preference for rewards is cash[8] – overwhelmingly so. When 555 salespeople were asked "If you had the opportunity, would you trade in your incentive travel for the equivalent cash?" 95 percent said yes.[9] Likewise, when 156 well-paid professionals in a semi-conductor factory were offered regular, predictable bonuses of $25 or a reward worth $25, 72 percent chose the cash. Multiple surveys yield similar results.

Despite these preferences, the IMA's argument against using cash is valid for reasons that have nothing to do with recipient preference. For the great majority of work in the U.S. and in other developed nations, cash is rarely the best tool to incentivize or reward precisely because it's the best form of compensation, but therefore makes for a very poor form of reward or recognition. To better understand why, look no further than what people select to give to people for birthdays, holidays, or other special occasions. The best gifts in most cases (with the exception of young adults) are almost always something that recognizes the individual in a way that demonstrates a true appreciation of who they are and what is special to them.

Decades of research demonstrates that non-cash rewards are most often a better choice than cash specifically because they are not cash.[10] For organizations, carefully selected non-cash rewards – even simple but well-timed thanks – often cause people

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[7] Mark R Lepper and David Greene, The Hidden Costs of Reward, Psychology Press, 2015
[8] Enterprise Engagement Alliance, *Recognition vs. Compensation*. Retrieved from: http://www.enterpriseengagement.org/articles/content/8289144/recognition-vs-compensation/
[9] Scott Jeffrey, *Behavioral Economics of Incentives*, Monmouth University, 2015
[10] Claudio Ayub, Cash vs. Non-Cash Incentive Programs – What Works Best? Perks.com, May 2, 2015

to perform better than cash rewards.[11] For employees, well-considered non-cash rewards can contribute to better health, happiness, and even utility.[12]

Research by the Incentive Marketing Association found that incentive programs using non-cash awards that addressed all of the key factors required to engage people – clear goals, communication, training, etc. – generated performance improvement of 44% in teams and 25% in individuals.[13]

In a recent Incentive Research Foundation/Aberdeen Group study titled *Incentive Success: Best-In-Class Sales Management,* based on the responses of 245 B2B sales professionals, researchers found that only 45 percent of organizations believe non-cash rewards are important. Yet among the "best-in-class" respondents, 63 percent believe in non-cash rewards. The essence of the research is that higher performing organizations lean toward non-cash rewards.

Non-cash rewards usually outperform cash rewards for a few simple reasons, some of which are explained in greater detail below. First, in most societies, people don't talk about cash – it's impolite, even crass, among well-mannered people. So when a deserving employee earns a cash reward, it may be difficult for them to share their success openly. Framing a cancelled check and putting it on a desk might seem tasteless, whereas people expect a trophy to be displayed proudly.

Similarly, where a person earns rewards ranging from a dinner out to an exotic trip, it is perfectly acceptable to talk (if not boast) about the reward (as opposed to the size of one's bonus, for example). And when employees talk about their rewards, they generate buzz and excitement, creating more value for the organization.

Most importantly, however, well-chosen non-cash rewards can make a far greater impression on the recipient than cash. A cash bonus or reward often gets deposited into an employee's checking account, for example (some organizations even use direct deposit). Though the reward may include a ceremony and recognition, the cash disappears quickly. First, it is subject to taxation (sometimes at the source) then, unless it is a substantial amount, it disappears quickly to pay household expenses – utility bills, groceries, and the like. Most cash rewards simply don't make as big an

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[11] World Incentives Inc. *Cash vs. Tangible Incentive Program Rewards*. Retrieved from: http://www.worldincentivesinc.com/Industry_Research/Cash%20vs%20Tangible%20Incentives.pdf
[12] Michael Silverman, *Non-Financial Recognition: The Most Effective of Rewards*? Institute for Employment Studies, 2004. Retrieved from: http://www.employment-studies.co.uk/system/files/resources/files/mp4.pdf
[13] Rodger Stotz and Bruce Bolger, What is an Incentive Program? Incentive Marketing Association (see:http://c.ymcdn.com/sites/www.incentivemarketing.org/resource/resmgr/imported/Series1.1,%20What%20is%20an%20Incentive%20Program.pdf)

impact as non-cash rewards can on the memories of the recipient and significant others.
To illustrate, consider an organization that uses spot rewards of $100 checks and a variety of non-cash equivalents to recognize employees on a day-to-day basis. Let's say a given employee (Employee A) works the weekend on an important project. On Monday her boss says thank you and gives her a check for $71 (the rest is withheld against taxes). She deposits it in her checking account where it disappears among the funds she keeps on hand to pay bills. A nice reward but certainly not memorable.

Employee B comes home from work Monday evening and is greeted by her happy partner who is holding a $100 certificate to a well-regarded local restaurant. Included is a card thanking the employee's partner for putting up with her working all weekend (for extra impact, it might also explain how important the project was and the contribution the employee made). Though employee B receives a reward of equal value (and less flexibility), the impact of the reward is likely to be much greater because it is more thoughtful – it recognizes her *and* her partner's sacrifice – and because the dinner out is more memorable than depositing a check. Not to mention that the employer probably saved $20 by buying $100 restaurant certificates at a discount.

Don't Forget the Customer

The same reasoning applies to consumer loyalty, referral, and surprise and delight programs: Non-cash rewards, when selected and presented with the utmost sincerity in a highly personalized way, have the potential to powerfully reinforce long-term relationships when incorporated into programs that address all elements that engage people. Think of them as a one-to-one, 360-degree "media" for the people most critical to your organization. For the sake of perceived cost- or time-savings, most companies make the mistake of essentially commoditizing consumer incentives, so that they get lost in a flurry of coupon offers and other promotions.

The opportunity is to carefully select consumer rewards specifically to distinguish them from mass advertising and promotions in a way that demonstrates a personal regard for each individual and his or her contribution as a customer.

Distinguish Rewards and Recognition from Compensation and Pricing

Despite the evidence in favor of using non-cash over cash in rewards and recognition programs, it still seems at odds with the fact that most people prefer cash. How can a non-cash incentive be effective in driving performance or engagement if, after I tell you I prefer cash, you try to incentivize me with a trophy or non-cash reward? Aren't I likely to be less motivated to pursue those goals if you try to incentivize me with something I value less than cash? The answer is that in the world of engagement the reward has nothing to do with compensation or pricing. This is about expressing appreciation for accomplishment or customer engagement that can be shared with significant others but which should not become expected.

The entire purpose of a non-cash rewards program is to clearly distinguish the program from compensation or pricing issues with customers, both from the standpoint of creating memories and positive emotions, but just as importantly to ensure that employees, distribution partners, or customers do not come to expect a reward and recognition. Once someone expects rewards, they become a form of compensation or price advantage and cause disgruntlement when taken away.

Since the goal of reward and recognition programs – as opposed to compensation or pricing – is to highlight exemplary results, behaviors, or actions, more and more organizations utilize so-called surprise-and-delight programs that offer rewards after the fact, rather than dangled as carrots.

Another approach, most appropriate for campaigns with very clear performance goals over a fixed period, is to enable people to select very personal awards they wish to work toward – also known as a wish list.

Don't Let Rewards Become Entitlements

Too often, incentives and rewards turn into entitlements or become expected by customers. When organizations fall into the habit of dangling carrots to get their workers to do things or change behaviors, those carrots not only have to get bigger over time, they also have to keep coming because they're expected – they've become entitlements for doing the work, and not even necessarily for doing the work better. The same occurs with customers with price-based promotions and incentives.

In the case of formal campaigns to achieve specific sales, marketing, or human resources performance goals, non-cash rewards can help reduce the risk of "rewards addiction" because, when offered in properly structured programs, they do not become considered a part of compensation, and because the non-cash rewards are part of a program that people understand might not exist the following year.

The use of non-cash rewards in formal engagement campaigns or surprise-and-delight programs ensures that employees understand the reward has nothing to do with compensation and therefore cannot be expected in the future. In the glow of their unexpected non-cash reward carefully selected to reflect who they are, customers, distribution partners, employees, etc. will feel surprised, grateful, and even emotional, without the danger of feeling entitled.

The Concept of Engaging Rewards

For many organizations, carrots and sticks or bribes are the wrong approach to motivation but are nonetheless often used. Similarly, there is considerable confusion between compensation and rewards and recognition. Despite its disadvantages in incentive, reward, and recognition programs, most organizations use cash more than any other reward medium.[14]

As a simple tool, cash is hard to beat. It is easy to give, it requires little thought, and its value is clear. People don't often complain about receiving cash, but as described above, it is rarely, if ever, the most effective tool to create positive long-term memories, foster communication in the workplace or among friends and family, and contribute to an atmosphere of fun. In other words, though it is the most used form of reward, cash is not the most "engaging reward."

In this e-book, the terms "engaging reward," "engaging motivator," and "engaging incentive" are used to distinguish rewards, incentives and recognition that usually drive engagement from those focused specifically on providing carrots.

It has become indisputable that some rewards and incentives are effective in driving satisfaction (rational fulfillment) and others can accomplish both satisfaction and engagement (emotional fulfillment). A great deal of research in the behavioral sciences and neurology over the past decade or so has confirmed hundreds of years of theory from the fields of psychology and philosophy. Human nature and emotions play an enormous role in determining how we think and decide. Indeed, researchers believe that – contrary to traditional economic and business orthodoxy – emotions drive about 70% of our decisions.[15] It sometimes seems as though the only discipline in a business that understands this is marketing.

Good incentive and reward design works *with* human nature rather than against it. Engaging rewards are those that impact the recipient at an emotional level, create memories, and inspire commitment and loyalty. Fundamentally, they must be sincere and appropriate to have sustainable value. Traditional carrots, on the other hand, can offer exciting material rewards along with the sticks that sometimes go with them to provoke fear, but in the end they diminish performance (while boosting

[14] Ibid
[15] Mary C Lampia, Like it or Not, Emotions Will Drive the Decisions You Make Today, Psychology Today, Dec, 2010

compliance) without addressing all of the reasons people direct their passions to any particular objective.

The Power of Purpose

Non-cash rewards with enough emotional impact don't always have to offer tangible value. A powerful speech that draws on people's need for purpose and recognition can easily convince them to lay down their lives for a cause. Consider Henry V's famous speech on the eve of the Battle of Agincourt in France in 1415 (see clip below). The king offered no tangible reward for those who chose to stay and fight and no punishment for anyone who wanted to leave. It's a rare organization that can evoke this type of passion for a sustainable period.

Video Clip: Henry V St. Crispin's Day Speech

https://www.youtube.com/watch?v=s1Ulz-Qwnx8

If 1415 is a little remote and Kenneth Branagh isn't convincing enough, consider Colonel Joshua Chamberlain, who is said to have made a speech to the Maine deserters on the eve of the Gettysburg battle in the American Civil War in 1863. The deserters were to be shot, but Chamberlain offered to let them go. For those who chose to stay, he offered no tangible reward. The next day, the rebel charge to outflank the union army was stopped at Little Round Top by the Maine deserters (all of whom stayed). When their ammunition ran out, Chamberlain's men fought with their fists and bayonets, and possibly changed the course of history. [16]

Autonomy

Other exceedingly powerful intangible rewards include the granting of autonomy and freedom to experiment. For example, Adam Grant, a management professor at the Wharton School of Business, wanted to help increase donations to the University's scholarship fund.

Money was raised in a call center. What Grant saw was a repetitive, draining job, with lots of rejection. No autonomy or experimentation was allowed; employees just stuck to the script and dialed for dollars. Call center reps earned a small base and larger bonuses based on call volume and sales.

So Grant invited a scholarship recipient into the call center to talk to one shift of reps about the impact their work had on his career and life. The scholarship recipient's talk lasted 5 minutes. The other reps on the other shifts didn't get the talk. Grant's shift was also given latitude to stray from the script and spend as much time as they needed with each potential donor. Grant came back one month later and looked at the results.

On average, the reps who got the talk spent twice as many minutes on the phone with prospects. And they brought in a lot more money: a weekly average of $503, up from $186. Almost *three times* as much after a five minute talk!

Grant's shift had been given two very powerful forms of non-cash reward: 1) purpose (the impact of their work was made real) and 2) autonomy, the freedom to do their jobs the best way they saw fit and treat their customers (potential donors) with the care and attention needed, regardless of how long calls lasted.

Grant and others have repeated variations of this experiment many times.
The results are consistent. Rewards do not replace the importance of autonomy, learning, communication, or sense of purpose.
Poorly paid call center representatives respond to human nature, and so do highly paid knowledge workers. For those whose employees are highly educated specialists doing complex work, it is even more important to motivate and engage them thoughtfully. Cash is easy. Non-cash rewards – especially those tapping purpose, mastery and autonomy – take a little more thought.

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[16] For video clip see: https://www.youtube.com/watch?v=2d2_zeJTJcw. For historical reference, see: http://www.ushistory.org/us/33g.asp

The same can apply to customers. Most people are surprised and delighted when any company shows a genuine interest in hearing and possibly implementing their ideas.

Reward plans based purely on cash or extrinsic motivators that are not managed properly can lead to a Hobbesian culture where each individual only cares about what he or she gets. And if your incentives and rewards are used as blunt instruments, you can't blame them. As above, reward systems run the risk of focusing employees more on what they need to do to gain the carrot than on what they need to do to satisfy the customers in front of them or work better with teammates.

To counteract this counterproductive situation, your reward system should keep the focus on the key factors that ultimately affect the company's performance, and the most important factor of all is customer engagement. Effective reward plans never take their eyes off customers.

Ramping Up Recognition

Praise, recognition and appreciation are critical to human happiness. Effective teachers, managers, and parents know that recognition and praise are among the most powerful motivational tools at their disposal. Consistent findings from research provide indisputable evidence of the near causal link between recognition, engagement, performance, and profit. [17]

Indeed, almost a decade ago Gallup analyzed data from interviews and surveys involving more than 10 million workers to conclude that variations in recognition and praise account for 10%-20% differences in productivity among employees and revenue, as well as in customer engagement.[18]

Organizations shouldn't question the impact of recognition on engagement any longer. Today's workers are intelligent, diverse, informed, internet-savvy, and connected. The current formula for motivation and engagement is dynamic and depends on what the organization is trying to accomplish, as well as the makeup of the people the organization is trying to influence. There is no one recipe, except that the need for recognition is universal and every organization needs to build a culture of recognition.

Decades of research have made a very strong case for enterprise-wide recognition programs. Recognition should be used to reinforce specific behaviors that are both

[17] Allan Schweyer, The Economics of Engagement, Enterprise Engagement Alliance, 2012
18 - Rodd Wagner and James Harter, "*12: The Elements of Great Managing",* Gallup, 2006

measurable and subjective. This is a skill that should be taught to all managers and is vital to employee engagement.

Traditionally, recognition was used with employees to highlight length of service, attendance, safety, and retirement. Today it is increasingly being used to promote the employee behaviors that lead to customer satisfaction and organizational success, and to reward customers, distribution partners, employees, and even vendors.

Peer-to-Peer and Social Recognition

Peer-to-peer recognition can be a powerful force in driving a sustainable recognition culture in organizations. Yet the majority of organizations – even those with formal recognition programs – don't always incorporate the notion of employees recognizing other employees. According to Bersin & Associate's *State of Employee Recognition* research, the top reason employees don't recognize each other is simply because there's no established way to provide recognition in most firms. In other words, there's no barrier to peer-to-peer recognition from a willingness or attitudinal perspective. Employees *want* to recognize each other; they just don't have the tools to do so.

Organizations can overcome this barrier by implementing simple systems that allow employees to recognize colleagues' work and contributions or those specific behaviors that lead to successful outcomes. Corporate Social Network (CSN) platforms, social recognition technologies or add-ons to intranets are relatively simple tools that enable recognition through short statements, the awarding of points, and/or by telling stories on "social walls" about what a colleague did that merits recognition. Over time, these statements, awards, and stories grow to become part of the foundation and legacy of a recognition culture

Social Recognition software can increase the frequency of appreciation and also provide guidelines to employees on when recognition is appropriate. These tools can allow for varying levels of sharing, so that some recognition can remain private, some can be limited to a team, and some shared enterprise-wide, even out to (and in from) customers, partners, and other constituents of the extended enterprise. Combined with a cascading or SMART goals program, the software may be equipped to align recognition with performance management. Most software will also include useful analytics and reporting tools to help organizations gauge progress and make adjustments.

As traditional job roles are increasingly being reframed around enabling a more modern, collaborative work culture that reflects the way people function in their interconnected, networked world, next-generation solutions need to support a combination of social recognition, media, and collaborative tools that allow professionals to:

- Recognize contributions
- Inspire performance and drive value-adding activities
- Reinforce behaviors and organizational culture
- Showcase achievements and provide public validation
- Foster collaboration, conversation, and recognition
- Find people, information, or expertise more quickly
- Foster knowledge sharing
- Widen personal networks, build relationships, and raise individual visibility
- Identify subject matter experts (SMEs)
- Build meaningful relationships across a widely distributed workforce
- Support Communities of Practice (groups of people with domain expertise)
- Extend corporate knowledge
- Invite peers into a personalized group

In essence, a social recognition solution should function as an enabler and an accelerator of existing core capabilities, values, attributes and strategic plans. This is a far cry from the notion of recognition as a five-year anniversary or retirement reward.

Even beyond today's social recognition tools that focus on employees, there are additional competitive advantages for organizations that extend recognition to other critical stakeholders. Customers, partners (including resellers), suppliers, and even volunteers (where applicable) are crucial to an organization's success and should be similarly included.

A social recognition strategy should include a means for recognition to and from the extended enterprise to be captured and shared. In the same way that employee recognition drives employee engagement, recognition (to and from) stakeholders will drive enterprise-wide engagement. Foundational transformation around the culture and people of the organization – including its customers, partners and suppliers – is essential to sustained success. As the pace of business change accelerates and the world becomes more interconnected, the agility and responsiveness of the extended enterprise will be its most critical competitive advantage. Social networks and their recognition components are key pieces in the integrity of the *connected* extended enterprise.

A Culture of Recognition

That a culture of recognition is a prime advantage in driving engagement is taken for granted by most leaders today and is nothing new. The hurdle has always been achieving that culture within a broader workforce culture that has long emphasized bottom-line results, short-term goals, and rewards for individual achievement. Managers and supervisors are constantly told about the importance of recognition and engagement, yet they're rarely held accountable or rewarded for it directly. The lessons from successful public social networks are there for all to see. They have succeeded, in part, based on people's willingness and enthusiasm for recognizing each other.

The same lessons apply inside organizations. Today, the power of recognition is opening up and is in fact being driven by employees. However, as the research indicates, the main obstacle to social recognition is the lack of an official means for employees to recognize each other in the great majority of organizations. Social recognition software and tools offer a simple, affordable solution.

The opportunity now is to better connect all of an organization's communities – customers, distribution partners, sales and non-sales employees, vendors, neighbors, etc. – around a simple understanding and expectation of what it stands for.

Organizations are in a constant state of organic flux and need to constantly adapt to accommodate performance objectives. Social recognition and its further evolution will bring a new layer of sophistication to employee and "extended enterprise" interactions with vendors, customers, and communities that will transcend the one-dimensional approach of many existing rewards and recognition programs.

Chapter 3:
Applications for Non-Cash Rewards

Non-cash and non-cash equivalent rewards can be applied in any circumstance where cash might be used, other than compensation. They are most effective when carefully selected with the recipient in mind, as well as his or her specific relationship with the organization. While there are some different considerations based on the audience as outlined below, what all have in common is the need to utilize rewards much as an organization would select media in advertising, and then weave it into a formal message and program that addresses all of the levers of engagement in a way clearly distinguished from compensation and pricing issues.

Non-Sales Employees

They are most effective when carefully selected by a person close to the reward earner and connected to a clear organizational value or behavior. Again, consider the case of employees A and B above. Employee A's reward delivers at a rational level but it is not an engaging reward. Employee B's reward is an engaging reward because it delivers both at a rational and emotional level. The reward is tangible, it has a market value, and it impacts emotionally due to the way it was presented and, most likely, for the good memories it creates.

In the case of sales programs, the return-on-investment is often quite tangible. In programs involving non-sales employees, they can be similarly tangible if tied to clear team or individual performance goals and behaviors that support organizational values – i.e., the actions that support the fundamental brand proposition.

Non-cash rewards range enormously in type, from movie tickets to exotic travel. Experiential rewards, like travel, are almost always engaging rewards because they are memorable and they impact at an emotional level. However, as we've seen, a restaurant coupon can also be an engaging reward, and so can any other merchandise, based on the way it is selected and presented.

Sales Employees

Consider solutions salesperson Dave, who has greatly exceeded his six-month quota and signed on several new, long-term customers for his software company. He earns a base salary of $90,000 + benefits and a substantial commission that in most years more than doubles his base. He is amply rewarded for his efforts, at least at a rational level. Commissions are a form of entitlement. If I sell, you pay. They are also the ultimate if/then reward.

Many organizations make the mistake of incentivizing their salespeople with more cash over and above commissions. For example, Dave's sales manager might announce, whoever makes the most sales this quarter gets a check for $2,500. This approach creates a little buzz and excitement (remember, $2,500 isn't a game changer to this sales team). But consider an alternative. Suppose Dave isn't expecting a reward on top of his salary and commissions. Suppose you gather the sales team in the conference room and recognize everyone for a great quarter, and especially Dave for not only leading sales in the quarter but for achieving his personal best six months with the team.

To celebrate, the team sits down with pizza and popcorn to watch an all-time favorite movie, Boiler Room, on a brand new 65-inch 4k flat screen TV. They can laugh at the plight of the sales team in the movie because sales is well respected, ethical, and appreciated in their organization After the movie, the sales manager announces that the TV is being sent to Dave's house and installed there in appreciation of his accomplishments. The team applauds and Dave basks in the glory. He is touched. He'll never forget this day. $2,500 would have disappeared into his checking account, and besides, it would have been dwarfed by his commission check. The TV, which might have cost about $2,200, is an engaging reward because it was delivered with great thoughtfulness.

Never lose sight of the fact that the way in which a reward is given can have just as much of an effect on a person as the reward itself. As professor Haim Mano of the University of Missouri says: "*The reward should act as a trophy, it's more psychological than just the prize, it is pride. And it's not only how much the reward is worth but how you present it. The moment you make it an entitlement you lose the impact. So give people rewards after the thing they achieved rather than as an incentive to achieve. Also be sure to calibrate the reward to the person's income. As long as they are in the right income category, I know employees are happier with a reward experience – a trip, for example – than the money. However, the trip to Hawaii doesn't solve my issues if I am a minimum wage employee.*"[19]

[19] Author interview with Haim Mano, January, 2016

Consumer Loyalty, Referral, and Surprise-and-Delight Programs

Many companies offer rewards to customers for frequency of purchase, making referrals, or in so-called "Surprise-and-Delight" programs that provide awards for customers on a spontaneous basis based on whatever behavior an organization wishes to award after the fact – i.e., not as part of a program promising a reward for such-an- such action.

Most companies offering rewards to customers utilize their own products and services, primarily because it costs less, is simpler, and because it assumes the customer already likes the product or service. The research suggests that this approach, at least in some cases, creates a false sense of savings, because the use of your own product or service not only in many cases comes at the cost of a sale you would already have made, but even more significantly minimizes the long-term emotional impact of the reward by confusing it with what they already buy.

The main reason for using carefully selected rewards other than those offered by your company is to make sure that people feel sincerely appreciated for their contribution and that the reward clearly stands out in a way that will be shared with friends and significant others. This explains why financial institutions and many other companies continue to use rewards other than their own products.

When engaged customers get rewarded with gifts that demonstrate a sincere understanding of who they are, and are presented in the way one would present a gift at a special occasion of any kind, the long-term result is not only more social media action but an emotional bond that contributes to the "wow" factor necessary for true customer action on your behalf.

Distribution Partners

Independent wholesalers, installation & service companies, and small retailers have tough businesses with sometimes tight profit margins, so they particularly appreciate rewards for engagement, not only for the owners and management, but for their own employees.

This explains the prevalence of non-cash rewards such as merchandise, gift cards, and travel for distributor programs. These programs have the greatest impact when they reflect an understanding of the business of each company and the individuals receiving the reward. The research indicates that it is not only critical to reward distributors in ways that give them the opportunity for enrichment, fun, or a simple pleasure, but also provide the tools enabling them to achieve the reward.

Many organizations shy away from these programs because of publicized abuses or inappropriate use by not-for-profit or government organizations. That is because these programs, as well as cash, can be used inappropriately as bribes, and because of widespread ignorance of the efficacy of these reward and recognition programs when used in overall performance improvement efforts.

An Enterprise Approach

Organizations will achieve the best results when the entire firm commits to standards of *enterprise* engagement and engaging practices, and that engagement best practices are applied to relationships with employees, customers, vendors, partners, volunteers, investors, and other stakeholders.

The traditional organization creates a wide management gulf between customers and distribution partners on the one hand, and sales and other employees on the other, each often managed by its own executives, management team, and staff whose main aim is to focus on the needs of their own particular audience. This is most apparent in traditional marketing, where the brand proposition almost always focuses on a promise to the customer, not to the organization's entire community.

Research has identified a fundamental link between an organization's different communities that is often overlooked. Enterprise engagement seeks to profit by aligning the interests of all of an organization's constituents under a similar vision, values, and goals in order to increase chances that expectations are consistently met.

This applies even to the use of rewards, because as organizations such as Mary Kay Cosmetics have demonstrated, rewards, when properly and sincerely used, become a branding, relationship building medium that can help define what the organization is trying to accomplish. In the case of Mary Kay Cosmetics, it's to provide an avenue for people to accomplish their dreams.

A key leadership competency is to understand the interrelationships between audiences. Everyone can't be an expert on the finer points of using incentives and rewards to engage all of the audiences. After all, one could easily build an entire career as a specialist in any single audience, external or internal. And, generally speaking, organizations will continue to require experts to reward and engage specific audiences. But every leader and employee should commit to the fundamentals of engaging incentive and reward design when dealing with internal and external partners and stakeholders.

Solid, well-managed organizations with good products and/or services that deliver what they promise to customers will likely survive in today's highly competitive and volatile marketplace. But organizations that do those things *and* build engaged constituencies with their stakeholders will stand apart. They will dominate their industries in the long term. (See video clip below).

Video Clip: Building Stakeholder Constituencies

http://books.simonandschuster.com/The-Power-of-Co-Creation/Venkat-Ramaswamy/9781439181041

Chapter 4:
Best Practices for Using Incentives, Rewards, and Recognition

The last decade or more of research has provided organizations with a much better roadmap for determining best practices for use of rewards and recognition programs. Given that past estimates put spending on non-cash rewards in the range of $50 billion, it pays for organizations to apply the findings of this research to achieve more measurable results.

While many of the principles directed at distinguishing rewards and recognition from pricing and compensation apply to audiences across the enterprise, there are some points of differentiation dictated by the nature of the relationship.

The great majority of workers worldwide today – certainly those in advanced economies – use their heads more than their hands. For these workers, engagement usually requires tapping into their natural, human needs to learn, create and improve. This doesn't mean, however, that cash is always an ineffective motivator. If you offer most people $10,000 cash to work 24 hours in a row doing something they hate, like cleaning out a dank and dusty basement, they'll do it, assuming they're capable.

Similarly, if the boss threatens to fire a person who doesn't work all weekend on a frustrating and boring project, they'll likely do it. Carrots and sticks of this sort motivate. Unfortunately, rather than inspiring higher performance, they erode it. The job gets done, but usually quite poorly, and attitude suffers.

The best way to get a measurable result from the use of rewards and recognition is to incorporate them into an overall program that can change from quarter to quarter or year to year based on the specific goals your organization or department needs to achieve. The program identifies the goals and objectives, as well as the various areas of assessment/surveys, communication, training, and rewards and recognition that will be required to achieve it and how results get measured.

Similarly, for customers and distribution partners, the best, most measurable results are achieved when rewards and recognition get clearly distinguished from compensation and are used as part of overall programs that address all of the ways necessary, not only to engage them, but engage them in the behaviors that help the organization and themselves in a meaningful way.

The Right Way to Reward and Recognize

As above, successful organizations tend to recognize their employees, distribution partners, and customers more often. Recognition, in fact, is so vital that nearly 80 percent of employees who quit their jobs do so mainly because of a lack of appreciation. Again, cash should not be confused with rewards and recognition: Cash bonuses of less than $1,000 are spent quickly – usually on bills – and just as quickly forgotten. A sincere pat on the back, dinner for two at a good restaurant, or a well-timed carefully selected merchandise reward with a personal message are much more memorable.[20]

Arguably, firms that are driven by transactions and only wish to develop transactional relationships with their employees, customers, and other stakeholders may be ill-served by the use of engaging incentives, rewards, and recognition. Engagement is difficult to build and sustain, and once an organization shifts from transactional to emotional it's very difficult to turn back.

Consider Susan. Her small company produces and sells industrial-quality outdoor spotlights. She runs a lean operation, but she pays her employees competitively. She also pays cash bonuses every year, just before Christmas, based on a share of profits. Susan's firm delivers her lights to resellers and corporate customers on time. When goods are damaged in shipment, Susan always replaces them quickly and at no cost. Her business is doing well and is growing a little bit each year.

Financially, Susan is living the good life, but she's a busy mother of three school-aged children. Her husband is on disability and requires care. Her aging parents suffer various ailments and draw on her time as well. The last thing Susan needs or wants right now is "relationships" with her employees and customers. All she can handle are transactions. With her employees she tolerates little drama; "you work, I pay." And with customers, there's no bonding over beers at the 19th hole; it's "I deliver, you pay."

For many of us, what Susan has is good enough. If you fall into that category, the best course of action may be to stay there. Cash rewards work adequately for transactional businesses that want to remain transactional businesses.

But Susan has always wanted to do more. Her chance comes when her parents decide to move to Florida. Serendipitously, her husband's latest operation has put a real bounce back in his step. Susan suddenly has more time on her hands. She reads the latest management literature and decides to start an enterprise engagement

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[20] Adrian Gostick and Chester Elton, *The Carrot Principle*, Free Press, 2007

program. She resets expectations with her workforce, her suppliers, her resellers, and her customers.

It's hard at first to convert her employees – after all, behind her back she's known as "the Ice Queen." But gradually they come around and start to believe in the new boss. Things go very well, employees seem happier, and they are definitely more productive. And Susan remembers to thank them regularly, gives specific praise, and hands out thoughtful gifts after a person does something exceptionally well.

Susan's visits to customer and reseller locations, including dinners with customer executives, are time-consuming, but she enjoys them and they are paying off. The new line of motion-sensitive and camera-equipped spotlights she's developing (an innovation sparked by a newly engaged employee) are receiving sizeable pre-orders, and one of her suppliers has agreed to carry her line exclusively.

Even Susan's suppliers are more engaged now that she's spent time listening to their concerns and ideas. Her commitment to pay her invoices in full within 30 days has proven particularly popular. Suppliers have reciprocated with discounts she previously thought impossible.

Fast-forward two years, and Susan is looking back at the fastest growth the company ever experienced – despite an 18-month-long recession that knocked several of her competitors on their backs. New ideas from employees, and even a few from suppliers and customers, resulted in new products, leaner production, more sales, and larger margins. Moreover, she treasures her relationships with her employees and stakeholders; a few have even become friends.

Of course, circumstances could change again for Susan. Her parents' health will eventually take a turn for the worse and she'll want to spend more time with them. One of her children could rebel and drop out of school, or her husband's back problems could return and immobilize him. But now, after building an engaged culture and reaping the benefits, Susan can afford to hire an executive or senior manager who fits the culture and to whom Susan can transition some of her work.

The moral of the story is that transactional relationships that revolve around payments and if/then-type cash incentives and rewards can and do work. The problem is they leave a lot on the table in terms of cash and well-being, and they leave organizations vulnerable. As above, a transactional company will rarely, if ever, lead its industry. It will never inspire innovation and creativity. It will always have difficultly retaining its top talent (unless it pays extravagantly). And it will be at great risk whenever markets are in turmoil.

Emotion

Brain science has come a long way in recent years. Neurologists are now able to see how the brain controls emotion and what happens when you shut down various parts of the brain. In essence, the science shows that we operate mostly on emotion.[21]

Gallup, which stands above all other organizations in the depth and breadth of its research into the drivers of engagement, has found the same thing. Indeed, according to Jim Clifton, its Chairman and CEO, *"decision making is generally 70% emotional and 30% rational."*[22] Whatever the ratio, behavioral economics accounts for emotion while retaining the constructs of traditional economics.

Over the decades, Gallup has come to a very solid (if intuitively obvious) conclusion about what makes people connect to another person, an employer, a seller, or a community. In studying customers across industries, it found that those who are emotionally engaged are far more valuable that those who are rationally engaged.

For example, if you have a customer who has experienced nothing but positive service (i.e., great price, great quality, responsiveness, etc.) in their dealings with you, congratulations; you're very likely to have a rationally satisfied customer. If, on the other hand, you have a customer who deeply identifies with your products, services, or brand – even if they pay more and occasionally experience poor quality and bad service – you likely have an emotionally engaged customer. These people are the most likely to become ambassadors for your organization.

Despite experiencing the same (or worse) treatment as a customer, someone who is emotionally engaged is far more likely to remain your customer and spend more money with you over time.[23]

This runs completely counter to the field of classical economics, which is based on the assumption that consumers act rationally. But where classical economics gets it wrong is that people very often *do not* act rationally; they act on emotion and they never *engage* on a rational basis. They only engage on an emotional level.

Think about your own behaviors. If you always act rationally, you'll always buy the lowest cost car in the category you want with the longest and best warranty. Some manufacturers go after that market, but many others – especially the luxury brands – succeed in winning your business with carefully crafted messages that resonate with

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[21] Paul Herr, Primal Management, Amacom, 2009

[22] Jim Clifton, *The Coming Jobs War*, Simon & Schuster, 2011

23 - John H. Fleming and Jim Apslund, Human Sigma, Gallup Press, 2007

you emotionally and that make you want to be identified with that brand. The very same thing applies to employees. We have to get their *emotional* commitment; we need to make them *want* to stay, perform well, and see the organization succeed.

We tend to act based on emotion and later, if possible, rationalize our actions with logic. For example, despite owning a perfectly serviceable phone, I go out and purchase the latest iPhone. I "need" it because its design, branding, and status appeal to me on several emotional levels. Later, when buyer's remorse sets in, I make myself feel better by selectively finding good reviews and high ratings for the phone (while tending to ignore or not notice negative reviews and ratings).

> ***"It is increasingly important to understand both how we view the world, come to judgments and make decisions. We are not nearly as rational or systematic as we think we are. We often see things as we want them to be, not as they are. The influences of triggers, context, framing, overconfidence, system 1 and 2 thinking, and many unseen factors have a direct impact on our decisions and behaviors. It is important first to understand these influencers and then to ameliorate the incorrect and biased actions."*** **– Dave Forman, author of Fearless HR**

Why We Work

People work for five main reasons. Autonomy, mastery, and purpose drive higher performance. The remaining two, pressure and pay, are negative motivators; they motivate, but when they're the main drivers of a person's efforts they tend to diminish performance. For example, managers and leaders often ratchet up the pressure and stress levels when an urgent job has to get done. This is often accompanied by incentives, perhaps a bonus for getting the job done on time. This sort of pressure causes people to work harder, as it is intended to. It works, and in some cases it's even appropriate. The common phrase, "we need to create a sense of urgency around here!" is an example. For organizations that haven't invested in autonomy, mastery, and purpose, intense pressure and incentives may be the only available tools.

Such organizations may be caught in what looks like a positive cycle of high energy. Getting the work done on time might briefly substitute for purpose. The adrenaline rush and thrill of working as a team to get it done might energize people in the short-term. A start-up that promises instant wealth after a few years of 100-hour weeks might motivate some people (these days, only the highly gullible) to perform, but there are limits and the reward has to be massive. Like drug addicts, organizations that rely on money and pressure to motivate have to constantly ramp up the pressure and the rewards to get the same results. And like drug addicts, there is usually only one ending to the story: For organizations, it ends in collapse under the weight of employee burnout, absenteeism, and high attrition.

Pressure motivates people to do things they don't really want to do, but it doesn't cause them to do those things well. Even now, you might stay in a job only because it confers high status, for example. The pressure of maintaining your standing in the eyes of your spouse, family, colleagues, and community is extremely powerful, but corrosive.

Money, including salaries, bonuses, and other cash and cash equivalent incentives or rewards also motivate people to perform, just not at their best. Even recognition, where no tangible reward is offered, can be a negative. When a person strives to do something just to earn recognition and not for positive reasons (i.e., to learn, to serve a higher purpose, or to experiment) they tend to underperform because there is no emotional factor. Other things being equal, a distance runner who practices marathons dreaming of a ribbon and mention in the local newspaper is no match for one who is driven to improve his or her personal best, or to bring awareness to a cause larger than herself.

Of course, you can't run a business without economic incentives, recognition, and rewards, but you have to combine them with other motivators to drive higher performance.

From Worst to First

Organizations leverage the power of emotion by focusing workers on autonomy, mastery and purpose. Doing so, organizations can take underperforming employees -– or even the worst performing employees – and turn them into superstars. Consider General Motors, which in the early 1980s operated a plant in Fremont, California. Though GM at the time was notorious for producing defective vehicles, its Fremont plant really stood out; it was the worst performing factory in the GM system, rife with defects, absenteeism, drug abuse, violence, and grievances.

GM's Fremont plant was so bad, in fact, that GM shut it down in 1981. Three years later, Toyota teamed up with GM to re-open the plant. They re-named it "NUMMI" (New United Motor Manufacturing Inc.) and, due to strict union rules, they brought back almost all of the workers GM laid off three years earlier. With the same workforce as before, Toyota turned the plant in to the best in the GM system in less than twenty-four months. Indeed, the plant's productivity rivaled the very best Toyota plant in Japan within three years of its reopening. How? Toyota applied its culture of human motivation and emphasized the performance-enhancing and sustainable motivators: autonomy, mastery, and purpose.[24]

Why Customers Engage

Gallup and other researchers have found that general customer satisfaction is not sufficient to retain customers or turn them into brand ambassadors. Its research has revealed that customers have to be "wowed" to truly engage. Very few organizations have achieved "wow" experiences consistently with discounts and promotions alone. Extensive research and common sense dictate that people who feel emotionally connected to an organization will do more to help it.

Total Motivation (TOMO)

Think of the highest performing organizations you know, and chances are companies like Apple, Whole Foods, and Southwestern Airlines come to mind. Each appears on Fortune's Most Admired Companies list in 2015, but they have another thing in common as well. They have high "Total Motivation (TOMO)" scores.

The TOMO, developed by Neel Doshi and Lindsay McGregor of Vegafactor Consulting (and as described in their NY Times bestseller, *Primed to Perform*), allows you to measure your company culture by applying the total motivation factor survey (available at www.primedtoperform.com) that you can administer across your workforce.

Your results will land somewhere between 100 and -100. The more your people do their jobs because of the direct motivators – things like work enjoyment and purpose – the higher your score. The more they do their jobs due to indirect motivators – pressure, prestige, money, and tangible rewards, for example – the lower your score. The same survey and calculation works for athletes, students, and even marriages. In study after study, the higher an organization's TOMO, the more likely it will stay in business and thrive.

Communication/Buzz

Engagement and the rewards that drive it, almost by definition, require communication. There are many tools to assist in achieving engagement, but none so important – and in today's world so complicated – as communication.

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[24] Ben Gomes-Casseres, NUMMI: What Toyota Learned and GM Didn't, Harvard Business Review, Sept, 2009

And when an organization aspires to enterprise engagement (company-wide and including all stakeholders), it takes the importance and need of communications several degrees further, both in scope and quality. At its heart, engagement is about relationships and connections. Leaders know that communication – conversations, feedback, recognition – is the fuel for relationship-building and trust.

For better or for worse, communication options have changed. We have tremendous choice today in the medium for our messages – email, phone, tweets, text, video, TV, radio, "snail mail," social media networks (both corporate-sponsored and public), face-to-face, etc. which makes our choice of media not only more difficult, but also puts added pressure on what to communicate through each of those channels.

In the "good ole days" communication was simple: Limited choices for how the message would be delivered; limited choices on what the message would include; limited choices on how the message would be formatted. But "The single biggest problem with communication," as George Bernard Shaw so perceptively pointed out in his day, is "the illusion that it has taken place."

Shaw's words resonate even more today. Communication is less of a channel than it is an ecosystem. The most successful organizations will capitalize on the ability to take a small piece of information, make it accessible and interactive within their target audience, and drive higher levels of brand/company engagement.

There are multiple ways to send your message, format it, track who got it, and know what they did with the information. Communication is no longer a controlled experience. Your audience has as much power – and in many cases more power – than you do when communicating, because of the power of sharing. Through their individual social networks, good news (and bad) can go viral quickly if not addressed immediately. Therefore, monitoring mentions of your brand, company, and products is critical in creating a true engagement process in your communications plan.

This part of the communications activity is much more ad hoc and free form. It's not driven by a schedule, but rather by what your audience wants and needs. If you see a post on twitter saying good things about your brand, thank the poster in that medium. If you see negative things, find a way to solve the problem. If you see questions that people are regularly asking, be proactive about getting the information out. Don't ignore posts…social networks embolden everyone, and your lack of attention will likely be noted in multiple tweets and Facebook posts.

Communication is two-way, engaged, and interactive. Taking the time to outline your communication needs, understand the various options available, and how you might connect one, two, or three different mediums to create greater understanding and engagement with your message and your brand is the critical challenge in today's ever-more-crowded communications space.

Yes, it's more complicated…but it's also more important than ever to look at your communication strategy as a key linchpin in your engagement strategy, rather than an afterthought. Remember: *How* you communicate will determine *if* you communicate.

Nowhere is the issue of communication more critical than in the implementation of specific marketing, sales, human resources, and other specific engagement initiatives. Regular reminders about the program, how the individual or team is performing, and the training and reward programs associated with it are critical to success.

Learning

Few rewards are as powerful, motivating, and beneficial to both engagement and organizational performance as learning. Year after year, in surveys by leading consulting firms and research groups, learning and career opportunities are rated at or near the top of the most motivating benefits provided by organizations to employees and channel partners. In BlessingWhite's *2013 Employee Engagement Research Update*, for example, the lead reason employees gave for leaving organizations was "… don't have opportunities to grow or advance here." Learning was also the fourth most critical driver of engagement among survey takers in the research.[25]

Organizations often overlook the importance of engagement in developing and disseminating their training or learning materials. At the same time, they overlook the impact of training and learning as an incentive and reward when implementing any type of engagement effort for customers, retailers, distributors, and vendors.

If people aren't capable of doing what's asked of them, no incentive will make the difference, except perhaps to drive some to cheat.

The drive to learn and invent is one of the four essential motivators in Nitin Nohria and Paul Lawrence's groundbreaking book *Driven* (2002). Organizations can tap into the *drive to learn and invent* by activating the pleasure of curiosity and the "Eureka" pleasure. This drive is particularly important considering that technological change is accelerating and all companies need to keep up.

25 - BlessingWhite, Employee Engagement Research Update, January 2013, p.10

Put Everybody on the Research and Development Team

One way for executives to enhance innovation is to reward employees, distribution partners, customers, and even vendors with permission to explore, experiment, and innovate, as is done with wild success in organizations ranging from Google to W.L. Gore & Associates. For example, tell the workforce that ideas are wanted and appreciated and that everyone is part of the research and development department. Here is how Lawrence and Nohria describe the innovation-enabled workplace:

> *Jobs are clearly more satisfying if they provide an opportunity to fulfill the drive to learn. This insight is at the heart of the success of the Quality Movement, which encourages problem solving by workers to improve quality and productivity. As Jack Welch, the much admired CEO of General Electric, put it, "When workers were given a real opportunity to contribute their ideas about how to improve productivity, what we found was they didn't have just a small number of ideas. Almost 100% of the ideas that we have implemented that have led to enormous productivity gains we have seen have come from our workers."*[26]

Few would argue that learning is a critical component of engagement at all levels and for all stakeholders. It's possibly the most important element in employee engagement, and it's becoming essential in customer engagement wherever sophisticated products or services are offered. Learning can generate interest in organizations' latest ideas and/or offerings and can be used to shape corporate reputations at the community, national and international levels. But learning is broad and learning opportunities surround everyone during every waking hour.

To compete, view learning opportunities as a reward. Make the content compelling. Not only must it be good in the traditional sense – accurate, valuable, expert – it must engage learners emotionally. Unfortunately, even the most brilliant ideas and concepts can be lost if they fail to engage. Use techniques perfected by storytellers, gamers, and other creative disciplines to powerfully tap the emotions of your target audiences and engage them in your material.

Corporate Social Responsibility

For most organizations today, community involvement – whether it's a small business sponsoring a local soccer team, a law firm donating pro-bono services or a

[26] Paul Herr and Allan Schweyer, Behavioral Economics and Incentives, Reward and Recognition, Incentive research Foundation, 2016

multinational corporation contributing to education efforts in poor countries – has become essential to the development of a positive brand image, as well as to recruiting and retaining top talent. In the U.S. alone, giving exceeds $300 billion each year.[27]

Corporate involvement in improving communities and societies has a long history. In the U.S., industrialists such as Henry Ford, John D. Rockefeller, Andrew Carnegie, and others built institutions of learning and foundations that are still contributing to the betterment of society today, in some cases more than a century after they were founded.

Dating back as far as the 1970s, however, the focus and practice of corporate philanthropy has been in a state of flux. The practice of corporate foundations funding worthy proposals by writing checks alone has evolved into a more active and, it is hoped, more sustainable form of giving.

Today, corporate philanthropy and volunteerism is often referred to under the blanket term Corporate Social Responsibility (CSR), emphasizing the linkage of community needs with business values to produce sustainability. In other words, where corporate giving and volunteering is integrated – benefiting both the community *and* the employer – it is more likely to continue and grow than if money were merely handed out in support of good causes.

But Corporate Social Responsibility encompasses a broader strategy of giving centered on engagement. CSR initiatives aim to engage the community so the organization is viewed in a positive light, and to engage employees who want to "do good" and be associated with a company that gives back. CSR also engages customers and consumers who want to support responsible companies and be associated with positive brands.

There is little doubt that tremendous value can be created when an organization's business goals and strategy are linked to (and integrated with) community priorities, including social welfare (human and animal), jobs, growth, education, the environment, and goals such as community health, safety, and improved educational performance.

Clearly, the incentive, reward, and recognition tactics used in corporate volunteerism and community engagement are sensitive. But many organizations, including Google and IBM, reward their employees with opportunities to volunteer and give back. CSR and volunteering as incentives and rewards should follow these best practices:

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[27] See: http://www.american.com/archive/2008/march-april-magazine-contents/a-nation-of-givers

- Communities and volunteers, no matter who they are or where they are, must be engaged at an emotional level.
- Organizations must develop integrated, organization-wide strategies to align their efforts with their values and goals and to ensure consistency across all divisions of the organization and across all mediums in which the brand is being promoted.
- Community and volunteer engagement, whether physical or online, are intertwined with customer, employee, and other stakeholder engagement. Efforts in one or the other are profoundly less successful if they're not integrated into a broader Enterprise Engagement strategy.

Chapter 5: How to Make Rewards Engaging (or Not)

The design of incentives and rewards is extremely challenging. Governments, companies, and institutions of all stripes have been practicing the art for centuries, yet there is still no simple guide to creating foolproof rewards and incentives.

Different incentives and rewards work better or worse depending on numerous conditions and circumstances. As we've seen, when researchers offer substantial cash rewards to subjects to perform simple rote tasks, like typing two letters on a keyboard repeatedly, those subjects outperform others who get less or no reward. However, when subjects have to do slightly more complex tasks, like simple addition, for example, the group promised the large reward significantly underperforms (see experiment, Chapter 2).

As described by the Distraction Effect in this same experiment, ill-conceived and poorly designed incentives often take people's minds off the work and onto the reward. The concept of "crowding out" suggests that rewards can diminish, or crowd out our natural or intrinsic desire to do things. Even smart, capable people tend to perform worse, on average, when distracted by a significant reward. They choke. Ask yourself whether you'd prefer a surgeon who pursues his career for the money and prestige, or one who does so for the love of the craft.

When researchers offered one group a reward for stopping a stopwatch exactly at five seconds and another no reward, the no reward group stayed engaged in the challenge even during breaks – practicing with their stopwatches. The reward group practiced only half as much. Dozens of similar experiments yield the same results, causing some researchers to label it, the "cancellation effect," in which the reward cancels your intrinsic reasons for doing something.[28]

In other words, the reward cancels your interest in the challenge. Instead, you focus only on the reward, resulting in weaker performance. Worse, when people lose their positive motivation for doing things and do them mostly for pay or to avoid something negative, they often focus their creativity and smarts not on the challenge, but on gaming the system.

Most organizations still use carrots and sticks to drive workers to perform. Workers, in turn, find shortcuts to obtain the reward (or avoid the punishment) rather than focus on the behaviors the incentive was designed to encourage. For example, in the

[28] Neel Doshi and Lindsay McGregor, Primed to Perform, Harper Business, 2015, Loc. 971

face of pressure to drive quarterly sales, salespeople often use harmful tactics to cope, including deep discounts at the end of the quarter, high pressure sales tactics, inflated promises, and so on.

Researchers call this "The Cobra Effect," based on the British government's efforts in Delhi in the 1800s to eradicate cobras from the city. Responding to the government's bounty for dead cobras, many Indians went out on the streets to hunt them, as the British intended. But others gamed the system. They took to raising cobras, so they could kill them, turn them in, and get a reward. As the story goes, the British spent a lot of money before they caught on, and after they did the Indians (being no fans of their British overlords) simply released their cobras, creating a bigger problem than existed before the incentive was offered. The story may be apocryphal, but it illustrates an all too common problem, one that has caused catastrophes ranging from Enron to the financial crisis of 2008.

A "Total Rewards" Approach

The lesson organizations should learn in attempting to design the best possible incentive and reward programs is to take great care and to view incentives and rewards as part of the organization's total compensation and performance management systems. In most cases, pay-for-performance and other old-style incentive schemes will damage the total motivation of your workforce or distract them from pursuing those behaviors that will make the most difference for your organization. And as above, bonuses can cause workers to focus on the reward instead of the work and coerce good people into gaming the system or even sabotaging colleagues.

Program Design – Linking The Reward With Measurable Outcomes

An important best practice in designing effective rewards and incentives is to align them to the behaviors you want and the culture you hope to build or protect, and to then measure the outcomes.

To develop an effective reward strategy for your organization, you should build a link between performance requirements and rewards. What results do you want your company to attain? Which activities or behaviors do you want to encourage? How can you translate those behaviors into results that can be measured? These are the technical questions, and they are crucial, but you also have to keep in mind that you are building this reward strategy for living, breathing human beings.

Consider Whole Foods, which has earned a spot on the 100 best companies to work for list for almost two decades now. Despite competing in a tough business with razor thin margins, and despite many copycat grocers emerging in the past decade or so, Whole Foods outperforms the competition year after year. It does so through commitment to a culture of motivation aligned to human nature and human drives – engaging motivators and rewards, in other words.

Whole Foods operates its stores and teams as near autonomous groups, responsible for everything from selecting employees to deciding what goes on the store shelves.[29] As a best practice, the company reinforces this philosophy through its compensation practices, employee rewards, and recognition, as well as promotion criteria that are also strongly team-based. Everything is linked to how well the team does, not the person. Reinforcing the culture with rewards and recognition means Whole Foods employees select their teammates very carefully; hard workers win over friends.[30]

Southwest Airline's compensation program also has a remarkable recognition incentive built into it. Working groups in the service, maintenance, and support sectors are not overshadowed. In fact, when a group performs at a consistently high level, its name is painted on the side of an aircraft and remains there for one year.[31]

Southwest's managers are responsible for creating effective reward and recognition programs. As part of this responsibility, managers are expected to vary their rewards constantly so that being rewarded doesn't become a routine experience. With this unique compensation system in place, it is highly unlikely that flying Southwest will ever become a routine experience either.[32]

Reward Selection – Demonstrating a Clear Understanding of the Audience

Significant progress has been made in recent years in terms of how managers can better understand the environment in which they operate, and thereby better interpret the most powerfully motivating strategies for their organizations.

For example, a survey conducted by the Forum for People Performance Management and Measurement shares details on the most popular motivational tactics used in a rewards and recognition context. Among the many compelling findings:

[29] Charles Fishman, Whole Foods is All Teams, Fast Company Magazine, April, 1998
[30] Tamara J Erickson and Lynda Gratton, What it Means to Work Here, Harvard Business Review, March 2007
[31] Thomas B. Wilson, Rewards That Drive High Performance, AMACOM, 1999
[32] Ibid

- Non-cash motivators are viewed as superior to cash for "less tangible, morale-improving outcomes such as creating positive internal 'buzz' and improving teamwork." In fact, non-cash programs are viewed as more effective for 9 of the 10 organizational objectives that were studied.
- Cash, conversely, is typically more effective when it is offered as part of repeatable programs tied to compensation.
- Employee surveys are the most common of the measurement tools used to evaluate the impact of rewards and recognition programs, but measuring performance results is equally important. The key point here is that measurement is critical to ensuring that the organization is succeeding in its motivation efforts.

Other researchers echo these findings. Todd Manas and Michael Graham, the authors of *Creating a Total Rewards Strategy*, studied the eight chief causes of employee turnover. The top seven of these involved the lack of application in such areas as learning new skills, coaching, feedback, and satisfying work. Actual compensation ranked eighth.

In evaluating these outcomes further, the authors determined that non-cash rewards are the only real way to differentiate your reward offerings. Cash will always be a commodity; it's the intangibles that will distinguish your company from the competition.

Customization and Delivery: One Size Does Not Fit All

Today we're gaining a better understanding of the relative strengths of individual motivational tools and the need to understand shifts in the environment in which those tools are being applied. We have clearly evolved from the days of "one-size-fits-all" workplace strategies to a place where customization and individualized rewards programs are both philosophically and statistically linked with people, productivity, and profits.

For example, there is a fairly dramatic shift occurring in the workplace that can be attributed in large part to generational composition. The younger generations (GenX, Millennials) are adding a new set of motivators to the list, including training and development, the opportunity to be mentored, corporate social responsibility, and an employer's willingness to be flexible in how, where, and when they do their job.

Given this, demographics and generational preferences become critical indicators in assessing what's most likely to influence engagement among employees, customers, vendors, and other constituencies. Organizations whose "mix" still reflects the biases and preferences of Baby Boomers – a generation moving rapidly towards retirement – are at serious risk of becoming dinosaurs in the realm of engagement.

A meta-analysis of dozens of research studies on non-cash rewards published by the Incentive Research Foundation[33] and others indicates that non-cash rewards have the greatest impact when they focus on reinforcing communication, creating positive emotions, recognizing the role of significant others in the lives of people, encouraging fun, and strategically differentiating rewards from compensation or discounts and rebates in a way that addresses intrinsic, and not just extrinsic, motivators.

On this basis, non-cash rewards such as travel, merchandise, and gift cards work best when they:

- Reflect the organization's appreciation culture through careful selection or choice
- Possess high perceived value
- Come with some kind of personal thanks from management; the more personal the better
- Get delivered in person or to the home with a personal, meaningful note customized to support the organization's brand
- Create the opportunity for lasting memories and emotions associated with the organization
- Provide experiences with their significant others, either on their own or with others in the organization, to created shared memories
- Are available to people at all levels in the organization or tiers of customers based on transparent opportunities.

Response Mechanisms

Research on motivation indicates that rewards and recognition address several of the critical psychological factors related to motivation and engagement.

According to the study *Rewards, Incentives and Workforce Motivation,* conducted by the International Society for Performance Improvement and funded by the Incentive Research Foundation, employees generally respond positively to the following workplace factors:

- **Support.** Do employees feel that the organization values their work? Do they feel that their actions will be noticed and that management cares about their

[33] www.theIRF.org

accomplishments? Properly structured rewards and recognition systems specifically convey organizational support for employee initiatives.

- **Task value.** Employees will work more productively when they understand that the job they perform has a value to the organization. This is often more difficult to convey when more lower-level jobs are involved. A program recognizing performance of employees at all levels often makes work feel more meaningful to them.
- **Capability.** Most companies understand that employees will work more effectively if they feel able to do a task. Rewards and recognition programs often work in conjunction with training by rewarding people for completing training or demonstrating their knowledge. This helps to enhance the learning process and reinforce the value of knowledge within the organization.
- **Communication.** People work more productively when they have a clear sense of their organization's mission and how their function relates to overall business objectives. Rewards and recognition programs help communicate the actions valued by the organization and increase the chances that people will perform those actions that have an impact on achieving the organization's goals.

Once you've gotten a fix on the environment, demographics, and "triggers" of your various constituencies, you can then determine the right mix for a specific organization or situation. The mix of total rewards consists of compensation (salary), benefits, and bonuses, as well as the many other tangible and intangible rewards, ranging from training to greater autonomy, purposeful assignments, volunteer opportunities, and well selected merchandise, travel, and other experiences and rewards.

Web-Based Programs

Regardless of the channel used, every engagement initiative needs a "home base" where your audience can access anything they need. Your program website is the one constant for all audience members, including external stakeholders. This is increasingly known as an Engagement Portal.

While the way in which information is received and/or broadcast can vary (and it should), you need to create and maintain a home base where all of the levers of engagement for each program can be addressed. That includes information about each program, whether it be a sales, marketing, distribution, employee or other initiative, news and useful information, how-to articles, if appropriate, profiles of winners, surveys or tests, the ability to track performance points and earn points for contributing, how-to contact, and other useful information. Make sure you design the website with logical and clear navigation, easy-to-find customer service information, links to other useful resources, and social media pages and accounts.

Your engagement portal should also be home to rewards programs. Internal programs might include peer-to-peer recognition and reward programs, for example. External web-based reward programs could include points programs for customers, or surveys that external stakeholders can complete in return for rewards that might be fulfilled directly from the site. YouGov, for example, provides survey-takers with a password-protected portal to track their surveys and reward points, as well as a means to redeem the points for rewards ranging from iPad Minis to foreign travel (See Figure Three).

The ability to put all of your organization's engagement tools and mechanisms on a single portal creates unprecedented opportunities for analytics based on actual behaviors.

Figure Three: Surveys, Points & Redemption

https://ap.yougov.c

Chapter 6:
Types of Non-Cash Rewards and Their Application

As explained throughout the preceding chapters, non-cash rewards vary as far and wide as the imagination allows. Some of the most effective include nothing tangible at all. The Big Three, in fact – autonomy, mastery, and purpose – generally drive engagement beyond anything that a cash or tangible non-cash reward can achieve, and a sincere thank-you from a respected colleague or leader can have significant value.

Nevertheless, it is often both appropriate and enormously beneficial to organizations to recognize employees, customers, and stakeholders with tangible rewards. Tangible rewards get the best results when used as part of formal programs or campaigns, selected thoughtfully and in alignment with human nature and all of the drivers of engagement and performance.

Merchandise Rewards

Merchandise rewards range from TV sets to toasters and everything in between. For hundreds of years, organizations have rewarded loyal customers and high performing employees with merchandise.

Children collect labels on cereal boxes, popsicle sticks, and soda caps and then redeem them for merchandise prizes, and consumers of all ages collect points for many, if not most, of the purchases they make. Similarly, many organizations award employees points that can be redeemed for merchandise from catalogues.

Even at their most basic, merchandise rewards offer at least some advantage over cash. Reward earners can choose merchandise they like, a gift that they might not otherwise buy for themselves – an indulgence.

Merchandise programs tend to give people permission to indulge themselves, whereas cash rewards are often seen as money that should go into the checking account to pay bills. While most programs give people access to a wide choice of awards, research suggests that the best way to distinguish from compensation and to "surprise and delight" is to try to tailor reward selections as closely as possible to the organizational culture, the program, and to each individual so that they reflect an understanding of who they are and their role in the organization. As noted above, some programs enable people to create wish lists they can work towards based on their performance or loyalty. In other cases, selections are created specifically for

each employee or group of employee that reinforces the values and culture of the team or organization.
Equally important, and often overlooked, is presentation. Many merchandise rewards are selected by the reward earner, shipped, and received with little or no fanfare at all. Reward designers should take the opportunity to customize the box or envelope and include a personal message inside, or even to present the award in front of the team. Many wholesalers make it easy to do this now at prices often below retail.

The key is to find ways to personalize the award as much as possible and to separate it as much as possible from compensation or pricing, so that it becomes part of someone's memory, is shared with significant others, and becomes known in your community as a genuine mark of distinction and appreciation.

Incentive designers who follow the principles and best practices described in the preceding chapters will no doubt find that merchandise can be an effective reward in driving performance and engagement when the extra effort is given to distinguish the reward from compensation. Thoughtfully selected and personally presented merchandise or gift card rewards can create an emotional imprint, but mostly in how they are chosen, presented, and delivered and the design of the program in which they are offered.

A majority of current rewards and recognition programs overlook the true potential to maximize engagement by being selected and delivered in an impersonal way that becomes in effect another form of cash and built into programs that address all levers of engagement.

For example, a supervisor who spends time with and develops real relationships with his team members is likely to learn about their interests outside of work. Maybe one of his team members is an enthusiastic gardener and another loves woodworking. When one of these employees does something extraordinary, the supervisor might thank them, maybe at the end of a meeting, for example. Along with the thank-you, a gift card from a supplier of rare heirloom plants and seeds for the gardener, or a new planer machine for the woodworker, would very likely have a more lasting impact than points redeemable in a retail catalog.

If the supervisor were even more thoughtful (and had the authority), he or she might connect the gardener's reward with something they might do at work, for example, a two hour a week assignment to the company wellness program to create a corporate garden. The woodworker might be given a few days off under the company's CSR program to teach woodworking to underprivileged youth at the local Boys and Girls Clubs. In both cases, the reward aligns with the powerful drivers of mastery and purpose, as well as extrinsic satisfaction. This approach builds a level of engagement that translates into higher productivity, more ingenuity, ability to attract talent, and more.

Experience-Based Merchandise Rewards

For emotional appeal, experiences usually outperform cash or "things." But the gift of merchandise can also include experiences. For the gardener mentioned above, a visit to a supplier of heirloom plants and seeds to pick up her reward and speak with the owner might boost the reward's value a great deal (provided the supplier is close and the employee can go on company time).

Where a person earns a merchandise award of high-end sunglasses or a watch, the company might include a special onsite "fitting" in which the recipient gets to try on a range of sunglasses offered and select the pair best suited to his or her face type or other preferences. A lover of craft beers might be awarded a trip to the local brew pub for a tour and a case to take home. Combining the merchandise with an experience increases the impact of the reward and creates associated memories.

Another option is the "warehouse run" in which winners get to run through a merchandise warehouse and grab what they can in a specified time, or a pop-up rewards store – often used in casinos – where reward winners can redeem their points on the spot. Once again, the goal is to go beyond a material reward to create an experience people will never forget and forever associate with your organization.

Gift Cards

Gift cards range from cash-equivalent gift cards to highly specific vouchers or cards for precise products or experiences.

Depending on how they are selected and presented, gift cards (or prepaid cards) can range from an almost perfect substitute for cash to something more like a well-selected merchandise or experiential reward. An "open loop" gift card of any denomination is exactly the same as a check or cash, which becomes perilously close to compensation. Nonetheless, gift cards rival cash as one of the most popular gifts, and regardless of the type, once received they are much more popular among recipients than cash.[34] Apparently, because they have to spend the gift card on something for themselves, the joy of self-indulgence kicks in. The key, once again, is to figure out how to select and present gift cards in the most personal way so that they don't become confused with cash and therefore become expected over time.

[34] Allan Schweyer, It's in the Cards, Incentive Research Foundation, 2013.

In a 2013 study, the Incentive Research Foundation reported that 44 percent of survey respondents identified gift cards as their favorite type of gift or reward, even over cash. The report stated: "When offered a prepaid card or equivalent cash, seven times as many of our respondents chose the prepaid card. The majority of incentive planners believe prepaid cards can be more meaningful, personal, and impactful than cash; almost half believe that, dollar for dollar, they are the most effective reward available." [35]

What this means is that people can be motivated by non-cash awards that let them enjoy themselves and feel personally enriched.

Be aware that today gift cards generally cannot carry an expiration date. To get around this, you can offer participants a voucher to redeem a gift card, which can have a deadline.

Incentive Travel

Organizations' use of travel to incentivize key stakeholders – employees, partners, resellers, and customers – is an established practice stretching back decades. Incentive travel has long been considered among the reward tactics that yield the highest return on investment with the longest-term impact on participant performance and engagement.[36]

The appeal of well-designed incentive travel appears to be increasing as both consumers and high performers seek tailored experiences over commodity goods aimed at the mass market. Indeed, the Incentive Research Foundation has found that

Not Only for Employees

Incentive travel can be utilized in conjunction with channel partners to further increase the engagement of top producers. The Firelight Group in Madison, Wisconsin, for example, serves several incentive travel clients who utilize their programs to leverage face-to-face time with channel partners and earners during the program. One technology firm, for example, asks its channel partners from various technology providers to sponsor a portion of the cost of the group incentive travel program. The sponsors then schedule special activities, and/or off-site dinners to invite the top re-sellers of their products to participate in this special VIP experience.

Initially the client simply paid for people to go on a trip to a beach resort and then let participants schedule their own experience while there. No face time was scheduled among the group with the exception of a closing dinner. With the help of experienced incentive travel designers, Firelight was able to revamp the experience in such a way that participants still had their free time, but could also opt to spend time with various channel partners during their stay. Participants are also formally recognized for their achievements at a final dinner.

The program has grown substantially as a result of the redesign. Channel partners now fund a larger part of the overall cost, resulting in much higher ROI's for the company and their sponsor partners. The participants now enjoy more activities and meals that are covered, and the number of nights provided for the program have increased, allowing a longer get away for the participants.

There is a far greater engagement level among the participants, the senior staff and the channel partners as a result of the attention to program design.

[35] Ibid.

[36] At Last, A Real Way to Measure ROI, Incentive Research Foundation; Determining the Return on Investment of Incentive Travel Programs, Incentive Research Foundation, 2001; and ROI Incentive Programs: Driving People, Driving Profits, Donna Oldenburg, Incentive Marketing Association, 2002.

incentive travel generates hard dollar returns of $4 for every $1 spent.[37] No doubt, carefully designed reward travel can have a high impact on communications, learning, productivity, and relationships that endure long after the program ends, which puts them in a separate category in terms of engagement. That said, price points make them appropriate mostly for top-tier awards.

Travel takes people out of their routine and forces them to deal with the unfamiliar. It is often a renewing and revitalizing experience that can boost productivity and health, reduce stress, and increase engagement and creativity for months to follow. Remarkable experiences impact people at an emotional level, allowing lasting memories to form – memories that participants often associate with the organization that provided them the experience.

As always, the key to engaging stakeholders through incentives and rewards is in the design. Organizations must avoid a one-size-fits-all approach to any incentive travel program. What one employee, customer or partner finds rewarding and engaging, another might find inconvenient, boring or even stressful. A week at the beach or several days of golf no longer appeals to the masses as it once did. Organizations must explore the experience and meaning of travel – including elements of wellness and volunteerism – to create custom-tailored experiences and lasting memories.

Extracting the greatest impact and ROI from investments in business travel requires more imagination and creativity than ever before. The bar on incentive travel programs has risen. Participants are no longer as satisfied with the one-size-fits-all luxury resort vacation. And from the perspective of sponsoring organizations, return-on-investment (ROI) and the measurement of the impact of investment in travel has become more important since the financial crisis and recession began in 2008.

Incentive travel can be among the most expensive rewards organizations offer. Dittman Incentive Marketing, a leading advisor to organizations on reward travel programs, suggests that a good experience costs at least $5,000 per reward-earner.[38]

Individual Incentive Travel

Incentive travel offers an example of a reward that should also be used as an incentive. In other words, incentive travel is an exception to the "reward after" rule described earlier. In this case, the if/then incentive offers benefits to organizations before, as well as during and after, the event. As employees, customers or partners strive to earn the reward, their productivity and engagement increases and a buzz may be created in the organization. This effect can last months as excitement around

[37] Return on Investment of U.S. Business Travel, Oxford Economics, 2009
[38] EEA interview with Susan Adams, Dittman Incentive Marketing, November 2014

the program builds momentum. Recent SITE Foundation research determined that "Of those who earned the [incentive travel] reward, 95.5 percent said they were … motivated to earn the reward. But 90.7 percent of non- earners were similarly motivated."[39]

For this effect to work, design is paramount. The award should not be exclusive or too difficult to attain. The more stakeholders that can see a realistic chance of earning the reward, the more the organization will benefit from their extra efforts and engagement.

Flexible travel options are key. Thoughtful design is important in creating programs that appeal to as many people as possible. This is easier to manage in individual versus group programs and should be taken advantage of. Many will continue to opt for beach or golf destination. For others, a significant health & wellness component is essential. Some will want an "extreme" experience, others may be motivated by the opportunity to give back in some form through volunteerism (for example, paid time off to build houses with Habitat for Humanity in Central America). For most, individual travel must include their significant others to be truly rewarding.[40]

Finally, in most cases (volunteerism and extreme travel are possible exceptions) programs should pamper reward-earners. The experience should be made more positive by removing as many of the inconveniences and indignities of travel as possible. This might include fast passes at airports, preferred boarding and seating on planes, pre-arranged concierge services, local transportation at the destination, welcome packages, and thoughtfully planned agendas.

Group Incentive Travel

Group incentive travel usually offers greater potential benefits to organizations than individual travel. And when done exceptionally well, it can be a more rewarding and memorable experience for reward-earners as well. Group travel is usually designed to bring high performers together with the organization's best customers, partners, and top executives. Getting the "best of the best" together in one place without the distractions of the office can unleash a bonanza of networking and great ideas.

Group incentive travel is also much more difficult to plan and design. With individuals, the travel experience can be tailored to the individual's tastes and

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[39] Incentive Travel: The Participant's Viewpoint Part 1: Incentive Travel as a Meaningful Motivator, SITE International Foundation and Incentive Travel Council

[40] Striking the Balance: The Integration of Offsite Business Meetings and Incentive Group Travel. Allan Schweyer and Lynn Randall, Incentive Research Foundation, May 2013

preferences. But if you're trying to decide what type of trip to offer to a group of salespeople who hit their quotas, or high performers in other areas of the business, keep in mind that one size does not fit all.

Remember that only 30-35 percent of people qualify as novelty-seeking, risk-taking and adventurous.[41] An exotic vacation for one person could be a nightmare for another. There are a variety of standardized psychological tests to assess novelty-seeking and exploratory tendencies. Theoretically, rewards designers could administer a novelty-seeking test and then offer trip options that are tailored to the employee's individual *drive to learn*. Or they could simply ask. Another approach that many planners and designers have adopted is to provide a range of options within the incentive travel program, from low impact to highly adventurous. Many group incentive travel programs include special pillow gifts, personal fittings, dine-arounds, and sometimes even shopping sprees.

Off-Site Meetings

Among the most common and effective of motivational events is the off-site business meeting or corporate retreat. Organizations should consider leveraging off-site meetings and events with tactics designed to engage employees, partners or customers. But they should proceed cautiously.

As with group incentive travel, it is extremely important to remember that every participant is different. Some will thrive on an agenda full of commitments for meetings and social occasions with senior executives. Others will desire fewer of those interactions and more time to relax and recharge with their colleagues.

Only rarely does it appear that reward earners reject business meetings and networking entirely. It boils down to quality and personal preference – how compelling and valuable are the meetings and networking to the individual reward earner? How much is too much for one participant versus another?

The key to a successful combination is in the design of the program. Careful thought and exceptional content can turn skeptics into eager participants. Planners must always place themselves in the shoes of the reward earner and put participants' needs ahead of the organization's desires.

No matter whether you're using a trip as pure incentive travel or in combination with meetings or events, it's important to consider how you can leverage that experience to reinforce values, messages or behaviors linked to your overall engagement efforts.

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[41] Paul Herr and Allan Schweyer, Behavioral Economics and Incentives, Rewards and Recognition, Incentive Research Foundation, 2016

It takes a specific skill set for a meeting planner or an incentive travel planner to manage both. The right person will have a combination of the most important skills of each, including the logistics and venue expertise of a meeting planner and the knowledge of rewards, recognition, and motivation of an incentive planner.

Chapter 7:
ROI, Analytics, and Measurement

It is impossible to navigate today's business media without encountering at least some mention of analytics. Everyone's talking about how quantitative data analysis is being used to fundamentally change some aspect of research, business or life. The rate at which books, conferences, and information are proliferating is astounding. Many describe Big Data and analytics as transformative and a key source of competitive advantage in today's business environment.[42] Some have even argued that competing on Big Data and analytics has become a core strategy for many organizations.

Professor of IT and Management at Babson College and MIT Center for Digital Business Research Fellow Tom Davenport and his colleagues[43] suggest that companies can be classified based on their developmental state of analytical competitiveness, ranging from companies that are "analytically impaired" to those that are 100% analytical competitors. According to this view, the use of Big Data and analytics as a core strategy will define the winners in the marketplace, both now and in the future.

Despite the pervasiveness of the talk about Big Data, it's not something that's typically well-defined or articulated. It's as if you're just supposed to know it when you see it, as well as how to use it to drive business success. For those who are not data or computer scientists (which is most people), the nature, uses, and potential of Big Data aren't always intuitively obvious.

If you've found yourself wondering what all the hype is about and how it can help you, you're not alone. The fact is, however, data analytics, including calculating the ROI of incentives and rewards, is important. It can be used to generate insights on creating, maintaining and building enterprise engagement.

In fact, properly designed IRR programs maintained on the same engagement portal platform can provide invaluable data that connect behaviors to results across the organization in ways never before possible.

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42 McAfee, A. and Brynjolfsson, E. (2012). Big data: The management revolution. Harvard Business Review, 90(10): 60-68. Mayer-Schonberger, V. & Cukier, K. (2013). Big Data: A Revolution That Will Transform How We Live, Work, and Think. Houghton Mifflin Harcourt.
43 Davenport, T. & Harris, J. (2007). Competing on Analytics: The New Science of Winning. Boston: Harvard Business Press. Davenport, T. & Harris, J., & Morison, R. (2010). Analytics at Work: Smarter Decisions. Better Results. Boston: Harvard Business Press.

We live in a time when success requires the engagement of all the stakeholders in an enterprise. Analytics can help identify how the engagement of different stakeholders is interrelated, the specific actions that can be taken to increase the engagement of certain stakeholders, and how enterprise engagement is impacting business success. To leverage these possibilities, one will need to take a holistic approach that requires there be a clear articulation of an organization's value chain, the various stakeholders and the roles they play, and what engagement of these stakeholders in particular parts of the value chain would look like.

The future of incentives and rewards hinges on every stakeholder aggressively adopting the power and insights available to them from ROI analysis and analytics in general. Only as we draw upon the decision making capabilities behind analytics will we truly be able to engage all facets of an enterprise through the best selected and designed rewards. Clearly, this isn't an endeavor for the faint of heart. However, for those who accept the challenge, the payoff is considerable. Mastering the use of analytics within incentive and reward design can reveal the symbiotic relationships between the engagement of each stakeholder and their impact on business results.

Measure, Analyze, Report and Take Action

When an organization strives simultaneously for better engagement across all of its key constituencies, truly exponential gains can be achieved. So how can you effectively measure and demonstrate these gains? In order to make informed decisions based in fact, managers need to:

- Regularly monitor trends in employee, customer, supplier, and partner engagement through both engagement surveys and analysis of sales or other behavioral data collected in the program
- Identify and place a value to the organization on the specific behaviors that can achieve results – if a behavior is to be awarded with a tangible value, the organization should also determine the value of that behavior in order to establish a return-on-investment
- Analyze those trends against the use of incentives and rewards to determine what works
- Share the information across the organization
- Set goals
- Mobilize executives, managers, and supervisors to take action

Managers' incentive plans should be aligned to the achievement of engagement goals. Taking action normally means devising and implementing initiatives aimed at improving one or more areas of engagement.

Effective measurement requires that certain fundamentals or principals be observed. Meaningful measurement will normally require an estimate of business impact at minimum and, in some cases, a return-on-investment (ROI) calculation. Following the policies and procedures below will ensure that you develop credible and defensible estimates of the business impact and ROI (where necessary) of your engagement initiatives:

Baseline data. To measure performance change, there must be meaningful "before and after" comparators. For engagement metrics, this means having or creating a reliable benchmark *before* you begin your rewards initiatives. In most cases, the benchmark data will come from your first or previous engagement surveys, or from performance data you've accumulated from a previous, comparable period.

Number and ease of measures. The number of performance measures should be limited and their tracking not overly complex. For example, employee engagement, customer engagement or channel partner engagement scores are singular measures. More granular measures might include scores by division or even by team and manager. Measures might include specific actions or behaviors such as: an action above and beyond; exceptional customer service; extra initiative related to solving a problem; a valuable suggestion that gets implemented; a consistent can-do attitude; etc. A useful tool is the Master Measurement Model, published by the Incentive Research Foundation.

Involvement. It's important to gain participants' input and feedback in the development of the measures. Off-the-shelf engagement surveys are readily available for employee and customer surveys. The Enterprise Engagement Alliance (EEA) offers its Enterprise Engagement Benchmark Indicator (EEBI), which includes measures for employee, customer, channel partner, and supplier engagement. In using these tools for measurement, be sure to collaborate with your various constituents in explaining how you'll measure progress and what you intend to do with the data. Encourage their input and suggestions, especially in the collection of data and dissemination of results.

Another option is to get input from some of the participants via a "nominal group technique." Using this method, a facilitator works with selected representatives from the people you're measuring to identify their views related to the most effective performance measures or related opportunities or obstacles. You can also use this phase to help identify any outside issues that could affect results (see Causality, below).

Conservative financial assumptions. Though difficult, you must place a value on the unit measure of performance or engagement. In doing so, err on the conservative side when making financial assumptions and confirm all financials (assumptions and numbers) with colleagues in the Finance or Accounting department. Calculating financial ROI from intangible benefits such as increased engagement is an imperfect science, especially when you're also attempting to connect it with a specific incentive or reward. By making conservative estimates and assigning only a portion of the gains to your reward initiatives, your results are more likely to be considered credible by the CFO.

Causality. You may see positive results from your engagement or performance initiatives such that even conservative estimates of the dollar value appear quite high, especially when all of the gains (in sales, for example) are attributed to your engagement initiatives. The impact of your initiatives takes time to surface, so you must consider external influences that might be partially responsible for the gains (or losses, as the case may be).

If your sales team engagement initiative (a spot reward and recognition program for top performers, for example) occurred between January and March, you might have had to wait until October for sufficient data to measure its impact. In between, the economy might have changed, demand may have increased or the competition may have suffered a setback. These influences have to be considered and factored into your equations.

One means to limit the effect of external influences is frequent measurement. For example, suppose you've held an event for channel partners. You measure its impact at the time of the event (reaction), then a month or two later (application), and then again after six months or so to determine the business impact and ROI (i.e., greater sales). Still, if prices of products have changed during those six months or if demand has changed, consider these factors in determining causality.

Another way is to track both outcome measures – i.e., the desired result in terms of sales, productivity, quality, safety, etc. – as well as behavior measures: selected actions or behaviors that lead to greater sales, productivity, quality etc. If the performance goals are achieved but there is no improvement in the frequency of actions or behaviors that lead to results, there's a good chance some outside factor has affected the results.

Linkage. Measures should ideally be linked to organizational goals and geared to driving organizational success. When developing your measurement plan, always think about corporate objectives and strategy. For example, one of the organization's goals may be to earn more "share of spend" from existing customers. In this case, an incentive might be designed to keep people on your commerce website longer. You'll need to correlate time spent on the site to dollars spent. Did the initiative drive longer site visits and higher spending? In other words, did better customer engagement result in more share of spend?

Demonstrating ROI. The financial impact of failed incentives and rewards and poor engagement or, conversely, the opportunity for significant financial gain where engagement is improved, is often large enough to warrant a measurement strategy that goes all the way to an ROI calculation. Where this is the case, measures and metrics chosen must support the calculation of ROI.

Targeting. Select high impact metrics to demonstrate that scarce resources are being applied in such a way to maximize business impact and ROI. For example, metrics aimed at tracking sales increases, reducing customer attrition, increasing productivity, quality, service, and safety, are ideal. These are easy to convert to dollar values in a credible manner, and both are easily understood, high impact measures.

Ongoing monitoring and feedback. As noted, effective measurement provides not only the opportunity to track your engagement efforts at the end of a program period, but also along the way. Make sure you build into your measurement effort a means to collect and analyze information on a regular basis, and make adjustments accordingly to your strategy and tactics to address performance or engagement gaps.

Predictive analysis. In making the case for spending money on engaging incentives and rewards programs, a predictive analysis of *expected* ROI can be very useful. Metrics need to support management's ability to understand the relationship between improvements in the measure and impact on organizational success (i.e., if goals are achieved, what is the value to the organization versus the cost?).

Technology

Measurement and analysis are no longer as time consuming and difficult as they once were. With today's low-cost, cloud-based software and Enterprise Engagement surveys with polling, tracking, analysis, and dashboard reporting tools, organizations have the ability to connect daily with their key constituents (employees, customers, suppliers, partners, etc.).

Daily interaction through engagement software is designed to be non-intrusive. Naturally, you can't survey people every day, but as a result of web-based recognition technology it has become easier to track the engagement of constituents – not only their performance, but also their website visits, including the content viewed, learning, innovation, participation in social networks, etc. Moreover, engagement technologies provide a dashboard of performance on an individual, department, and enterprise level, as well as for individual customers, suppliers, and re-sellers.

Allowing employees, and partners in particular, to view the progress of their peers toward goals and program utilization connects employees and partners to the brand, the engagement portal, and their performance objectives. The key is to build the community and share data, not just at an administrative level, but also at the participant level.

Measure Frequently and Act Fast

Tracking and sharing real-time performance against goals ideally leads to more high-level leaders taking action and buying in to the process. Real data based on business impact and ROI helps your organization identify issues and opportunities. For example, if the data reveals a negative trend in channel partner engagement, rewards initiatives to reverse the trend can be implemented, measured (often with ROI calculations), and adjusted quickly until the desired impact is achieved. Whether the tactic is additional training for employees who manage channel partner relationships, a richer incentive program or an event for top-performing channel resellers, decisions can be made in the light of metrics, and initiatives can be evaluated on data, business impact and even ROI. They can then be adjusted, expanded or terminated based on measured, defensible evidence.

Ongoing measurement – where the engagement of key constituents is quantified – can ensure success now. There is no need to wait months for the next employee or customer engagement survey results or, worse, take a stab in the dark based on a hunch. Because so few organizations are tracking incentive data today, an enormous competitive advantage awaits those that do, and especially those who build it into their day-to-day business platforms.

ROI Measurement: John Deere Credit

Leaders and managers can drive appreciable improvements in engagement using a variety of techniques and behaviors. Knowing this, John Deere Credit (JDC), a division of John Deere (now John Deere Financial), sought to improve its managers' capabilities related to employee engagement.

First, JDC surveyed its organization of about 800 employees. Though much like an engagement survey, this survey focused on those things most impacted by a person's direct manager or supervisor. Analyzing the results, JDC could see what managers were doing relatively well and relatively poorly. Manager strengths were documented and shared, as were their weaknesses. This gave the organization (and managers themselves) a benchmark and guidance for where improvements might have the most impact.

Related to their strengths and weaknesses, managers were asked to choose two activities that would drive higher engagement among their teams. Each would lead and be accountable for these initiatives with their reports. The interventions were simple and cost effective – for example, developing individual learning plans with each team member, scheduling weekly one-to-one coaching sessions, finding the time to recognize people regularly for their contributions. Monthly meetings were scheduled to review progress and hold all managers accountable for following through with their plans.

JDC's next employee engagement survey took place about eight months after the program was initiated. Not surprisingly, it revealed tremendous gains. While it wasn't possible for JDC to isolate the impact of the management initiative alone, they felt the initiative accounted for the lion's share of improvements. Those assessed as "Fully Engaged" rose from 18.2 percent to 25.6 percent. "Engaged" workers rose from 49.8 percent to 55 percent. Those previously deemed "Somewhat Engaged" and "Disengaged" dropped from 24 percent to 17.3 percent and 10.1 percent to 3.2 percent, respectively.

So what do these numbers mean? Using their previous engagement survey results, JDC determined it lost over $6 million per year due to the 34 percent of its employees who were either Somewhat Engaged or Disengaged. After the intervention, they produced the following profile using data and recommendations from the Center for Talent Solutions (CTS), a firm that has been assisting organizations worldwide with employee engagement for the past 15 years.[44]

- 800 employees
- Average salary: $78,000
- Average benefits: 28 percent
- "Fully Engaged" = 122 percent performance
- "Engaged" = 100 percent performance
- "Somewhat Engaged" = 71 percent performance
- "Disengaged" = 40 percent engaged

By multiplying the number of employees by average salary plus benefits ($99,840), managers arrived at an ideal "performance number" if all employees were engaged: $79,872,000. However, because 25.6 percent of its employees are now Fully Engaged, it received an annual performance boost of $4,498,391.04. Unfortunately, despite decreasing the number of Somewhat Engaged and Disengaged employees, it is still losing money in terms of performance. The 17.3 percent of its employees who are

44 - See: www.keeppeople.com

still Somewhat Engaged cost JDC $4,007,178.24 each year, and the 3.2 percent that are Disengaged cost it $1,222,041.60.

Yet, by taking the simple, inexpensive actions they did, JDC reduced its net annual performance loss from roughly $6,000,000 per year to roughly $731,000 – a drop of more than $5.2 million.

Chapter 8: Summary

Incentives, rewards, and recognition have been used in commerce for thousands of years, but only recently have organizations begun to take a more scientific look at their use. Based on the new interest in engagement and extensive research demonstrating the potential connection between engagement and performance, both research institutions and organizations are taking a more critical look at the way rewards are used, whether for customers, distribution partners, sales and non-sales people or even vendors and community supporters.

Over the last 15 years, an unprecedented amount of research has been conducted on incentives, rewards, and recognition. A meta-analysis of all of this research finds that the best results are achieved when rewards and recognition are:

- Offered as part of formal programs that address all of the key levers of engagement
- Clearly differentiated from cash compensation and pricing
- Selected with a personal knowledge of the recipient
- Presented in a highly personalized way appropriate to the individual and the accomplishment
- Systematically measured in a way that can connect performance and behaviors.

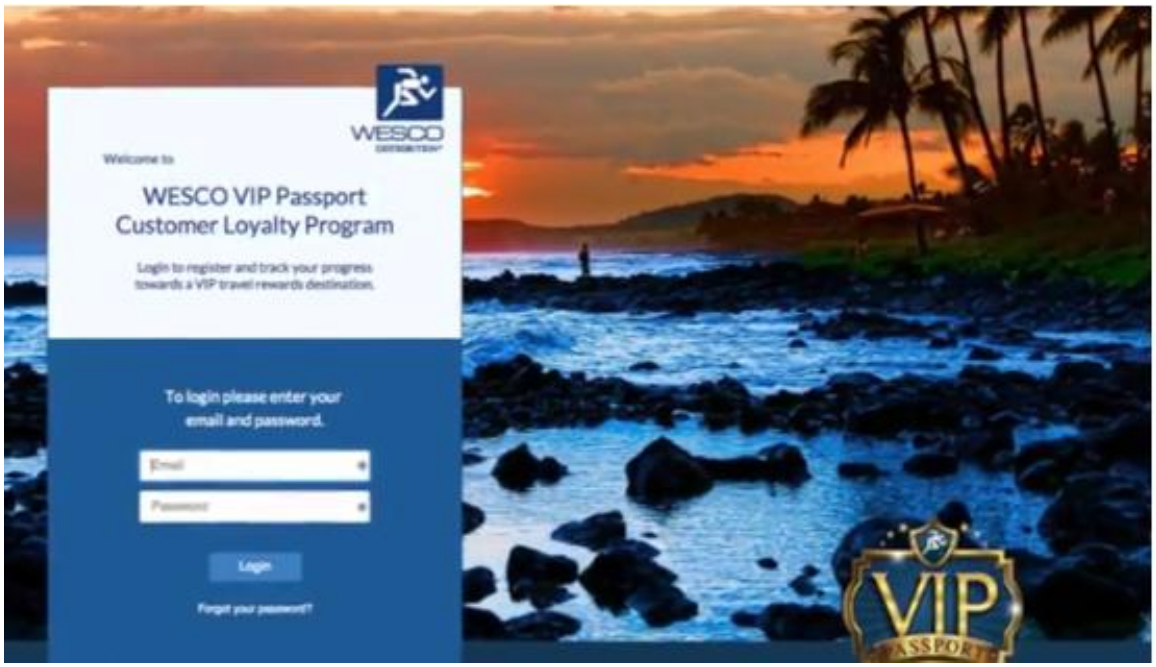
The major challenge in most organizations is that nobody has any formal training in incentive, reward, and recognition design, and there is no commonly accepted framework or analytics-based approach for making informed decisions. As a result, the vast majority of programs are very basic "do this, get that" programs, with very little science related to program design, effort to address all of the levers of engagement or to carefully select and present rewards in a meaningful way.

That incentive, rewards, and recognition programs remain a staple in marketing, sales, and human resources initiatives without following best practices is a testament to their power. Imagine the results you can get when you follow all of the key steps to successful IRR program design, implementation, and measurement.

Appendix:
Case Studies

The following case studies illustrate several of the principles and best practices of using incentives to engage that are described in this book. The video clips are courtesy of the Incentive Marketing Association.

WESCO VIP Passport: Dealer Distributor Incentives



http://www.incentivemarketing.org/?page=COE2015Wnrs

United Health Group

Serving more than 75 million individuals, UnitedHealth Group (UHG) is one of the largest insurance and wellness management companies in the U.S. Its two major divisions, UnitedHealthcare and Optum, employ 77,000 people who work in six business units. In each of these businesses, there's an innovation team that works to design and implement new products, services, and efficiencies, all aimed at improving the quality of healthcare and driving down costs.

Robert Plourde, Vice President of Innovation and Research & Development, says the key is to focus on root causes, noting that the U.S. spends as much as 10 times more on disease management than it does on prevention.

"It's critical for healthcare providers to educate people and provide them with the tools, incentives, and coaching they need to actually implement the behavioral changes necessary to adopt healthier lifestyles," he says, adding that ample information is available, but very few people take the time to seek it out.

Consequently, UHG has pioneered exciting ways to educate people about their health needs, specific diseases, and courses of action by using technology and "gamification" techniques, along with incentives, to both engage and encourage them to take the necessary actions.

Enterprise Social Wellness

In the fall of 2010, UHG piloted an enterprise-wide "social wellness" program using what it called the ShapeUp platform, in which employees enrolled in a 12-week challenge to lose weight, increase the number of steps they walked, and increase the amount of time they exercised daily.

To participate, employees input their progress in the online platform, encouraged others to join them and compete together, and invited others to join as well.

The results: the social reinforcement and team-based structure drove 30 percent of employees to engage and participate. More importantly, 70 percent were first-time wellness users, and 40 percent were at high risk for obesity-related diseases. Overall, participants lost 25 tons of excess weight and recorded more than 1 billion steps. On average, individual participants exercised 30 minutes daily, lost 3.7 pounds and reduced their body mass index (BMI) by 0.6 percent, with some achieving dramatic and life-saving results.

Then, in November of 2010, OptumHealth launched "OptumizeMe," a health and wellness platform that allows users to create a series of challenges using mobile apps, social interaction, recognition, intrinsic rewards, and extrinsic rewards for goal achievement.

Motivation Through Gamification

According to Karl Ulfers, Vice President of Consumer Solutions for OptumHealthcare Solutions, it's critical to help people navigate the system so they can learn about their specific conditions and health issues, find the right doctors, and give them tools to

help take the necessary actions, such as losing weight to reduce hypertension and diabetes risk.
Ulfers explains that because many people don't have immediate access to their computers while at work, a restaurant, recreational activities or while exercising, OptumHealth launched a new mobile coaching experience that incorporates elements of gaming. As people take actions to improve their health – eating the correct foods, drinking water as directed, etc. – they'll earn "badges" and unlock levels that will provide them with more features and functionality. For example, if they earn a bronze badge, they'll be able to post on their friends' walls and see more content (including articles and videos) and receive surprise rewards, such as congratulations from celebrities.

The OptumizeMe system also includes a "loyalty engine," which awards points for participating, learning, and accomplishing required outcomes. In one case, if a participant's BMI is below a targeted number they will earn points; if it's above they can still earn points, but only by taking remedial training and coaching.

Rewards & Relationships

Although this platform is designed and managed by OptumHealth, it's customized for and sold by the 1,700 payers, providers, and employers who are their customers. Award points can be used for insurance premium reductions, incentive merchandise, travel packages or retail gift cards, depending on the goals and objectives of a particular program sponsor. Some employers believe that offering their employees reduced premiums is more motivational and will result in greater participation and better results (e.g., save $300 for taking the specified actions), while others believe that tangible incentives have greater perceived value, especially merchandise items and gift cards that relate to health and wellness (such as branded athletic gear and apparel).

Sweepstakes are also used as a promotional tool to generate interest and awareness for specified activities such as taking a Health Risk Assessment (HRA) or Biometric Screening. Ulfers believes that OptumHealth has experienced high participation rates because people are motivated by the "aspirational" travel and merchandise prizes that are being offered.

In addition, UHG deploys devices that help improve wellness, such as kiosks that allow employees to test their weight, blood pressure, and body fat at work in order to keep themselves on track and tie in to workplace education, coaching, and support groups. UHG is also partnering with consumer electronics companies that are bringing products to market that are designed to help people get more fit, as well as with nonprofit health-related organizations and community groups to improve health and wellness education.

Building a Culture

In addition to encouraging all of its employees and channel partners to participate in health and wellness programs, UHG fosters a culture of innovation ad engagement that allows everyone to submit ideas for new products and processes, both individually and in teams. Participants can submit ideas in writing, via email, using an online community collaboration platform, and even over the phone to reps who forward them to the appropriate reviewers.

And it doesn't stop there, because if an idea is accepted the initiator can choose to become the "idea champion" to bring it forward – in some cases even as their new full-time position. This culture of wellness, recognition, and innovation drives passion, empowerment, and engagement – and that comes from the top, because the company's CEO promotes the program, issues challenges (such as a recent one to focus on childhood obesity), and recognizes top ideas and implementation teams at formal recognition events.

Erin Carnish, Senior Vice President of Innovative Health and Technology Solutions for OptumHealthcare Solutions, heads a team that's focused on developing next-generation solutions to drive medical cost savings. She explains that while there are certain generalities that apply to the population as a whole, healthcare education, treatment, and management for people with specific diseases must involve customized programs that are sensitive to their unique needs, while at the same time complying with strict privacy regulations.

OptumHealth also continuously gathers insights from patients and physician panels covering various specialties to improve its solutions. Carnish notes that they recently conducted focus groups with employees of a large retailer to learn why they visited the E.R. as their primary source of medical treatment. They learned it was because many of them couldn't get to regular doctors for scheduled appointments. Acting on this information, "virtual doctors" were made available in the employee break room, which allowed employees to explain their condition via a video conference and then get the proper treatment immediately or be directed to the most appropriate healthcare provider for their needs.

The division is taking this idea further, working on a program with doctors and other healthcare providers to provide an online scheduling service that will allow members of all groups, not just this retailer, to find the right type of doctor for their needs.

Cutting Waste, Increasing Care

OptumHealth is also launching a major initiative to create a system of Health Advisors who will work in conjunction with people, much like financial advisors, to assess their needs, help direct them to education and providers and coach them to make the recommended behavior changes to live a healthier lifestyle. This cuts out wasted visits to inappropriate providers and maximizes the time of specialists who can help with specific conditions.

In 2010, OptumHealth piloted a program in its Golden Valley, MN, location to integrate all employer healthcare and wellness best practices. This included adding a gym with a variety of exercise classes; making thematic design changes, such as painting some of the office walls and common areas with the GOh! program logo and green color; adding motivational messaging throughout the building, especially in the stairwells; adding a ping-pong table and other equipment to the break room to encourage physical activity; introducing a nurse or other health professional as each employee's wellness "concierge" to coach and guide them; revamping the menu in the cafeteria to eliminate foods with high fat and calories and replace them with fresh, whole foods that have high nutritional value; and coordinating monthly educational and fitness events.

Their key objectives are to lower healthcare costs, change the way employees use the healthcare system, provide an environment where a healthy lifestyle is easy to achieve, and improve employee health with a comprehensive onsite health management solution.

The results have been outstanding. Some highlights:

- medical savings increased 35 times over the prior year
- wellness program engagement rose from 7 percent to 22 percent
- employee engagement scores increased by 6 points
- 31 percent of employees say their workplace productivity has increased
- 67 percent say that they are placing a higher priority on improving their health.

The healthcare system might seem broken, but UnitedHealth Group is one of many companies leading the charge to fix it through continuous innovation and Enterprise Engagement.

IBM Circle of Excellence Sales Incentive

http://www.incentivemarketing.org/?page=COE2015Wnrs